HAO WEN HOLDINGS LIMITED
皓 文 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

ANNUAL REPORT 2010

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This annual report, for which the directors (the "Directors") of Hao Wen Holdings Limited, formerly known as Everpride Biopharmaceutical Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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DIRECTORS

Executive Directors

Zhao Borui *(Vice Chairman)*
Hu Yangxiong
Lee Cheuk Yue, Ryan
Chow Yik
Chung Chi Mang
Leung King Fai

Independent Non-Executive Directors

Lam Kai Tai
Wong Ting Kon
Yeung Mo Sheung, Ann

CHIEF EXECUTIVE OFFICER

Hu Yangxiong

COMPANY SECRETARY

Leung King Fai

ASSISTANT COMPANY SECRETARY

Codan Trust Company (Cayman) Limited

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AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

COMPLIANCE OFFICER

Hu Yangxiong

AUTHORISED REPRESENTATIVES

Hu Yangxiong
Leung King Fai

QUALIFIED ACCOUNTANT

Leung King Fai

LEGAL ADVISOR ON CAYMAN LAWS

Conyers Dill & Pearman, Cayman
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

PRINCIPAL BANKERS

in Hong Kong
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

in Mainland China
China Construction Bank
Bank of China

GEM STOCK CODE

8019

CHAIRMAN'S STATEMENT

For and on behalf of the board of directors (the "Board") of Hao Wen Holdings Limited (formerly known as Everpride Biopharmaceutical Company Limited) (the "Company" together with its subsidiaries the "Group"), I am pleased to present to all shareholders the annual report of the Group for the year ended 31 December 2010.

Turnover for the year was approximately RMB89,226,000, which represented an increase of approximately 7% as compared with that of 2009. The Group recorded a loss of approximately RMB38,034,000 for the year due mainly to an increase in impairment losses of intangible assets, goodwill and interests in associates.

In order to improve the operation results, the Group will continue to engage in research work so as to develop new products and to improve the quality of existing products. With the increase in the variety of products, the advertising and promotion activities will be more cost effective and the market share of the Group's products will be improved. In addition, the Group will continue to look for other new investment and cooperation opportunities so as to broaden the income base and to strengthen the profitability, as well as minimising the performance risk of the Group.

The Group is realigning its business. Consequently, the Company has changed its name to Hao Wen Holdings Limited to signify this strategic move.

On behalf of the Board, I would like to extend my appreciation to shareholders of the Company for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers, lawyers and auditors for their trust and support to the Group.

Zhao Borui
Vice Chairman

Hong Kong, 15 September 2011

OPERATION REVIEW

During the year under review, the Group continued to engage in the production and sales of the medicines known as "Plasmin Capsule" and "Puli Capsule" in Mainland China and trading of shares in Hong Kong.

"Plasmin Capsule" is classified as a "State Class 2 Protected Product of Chinese Medicine" and is entitled to an administrative protection period of seven years commencing from 19 December 2006 and expiring on 29 September 2013. During the administrative protection period, the prescription and the production technology used by the Group in producing "Plasmin Capsule" is protected and no other manufacturers in Mainland China may produce or replicate these products in Mainland China.

According to the clinical studies conducted by medical institutions in Mainland China, "Plasmin Capsule" has the principal effect of resolving blood clots and is used for treatment of cardiovascular and cerebrovascular diseases, while "Puli Capsule" has the principal effect of treating osteoarthritis. Both products are manufactured at the Group's production complex in Taigu County, Shanxi Province, that had been accredited with the Good Manufacturing Practices ("GMP") certificate on 28 February 2003.

FINANCIAL REVIEW

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB89,226,000 (2009: RMB83,468,000), which represented an increase of approximately 7% as compared to that of 2009. The increase in turnover was mainly due to the increase in sales of "Puli Capsule", which represented approximately 95% of the consolidated turnover of the Group for the financial year 2010. The underlining factor for such increase was that Glucosamine, the major ingredient of "Puli Capsule", had been included in the State Basic Medical Insurance and Labour Insurance Drug Catalogue. As a result, insurance claims can be made for purchases of "Puli Capsule" which stimulates the sales of "Puli Capsule". In addition, public awareness and acceptance had enhanced and this resulted in the increase of the Group's turnover.

The Group's audited consolidated loss attributable to owners of the Company for the year was approximately RMB38,034,000 (2009: RMB32,057,000). The increase in loss was mainly due to an increase in the impairment losses of intangible assets, goodwill and interests an associates.

The selling and distribution expenses were increased by 18% to RMB43,251,000 as compared to last year. It was mainly due to the increase in advertising and promotion expenses.

The administrative expenses was increased by 12.5% to RMB43,246,000 as compared to last year. It was mainly due to the increase in staff costs.

Net finance expenses of approximately RMB2,694,000 were mainly arisen from interest charges on loans and borrowings repayable within five years.

During the year, the Group has only two medicines under production and sales: one is "Plasmin Capsule" which is classified as a prescription medicine and its sales is limited to hospitals of which is a relatively weak market for the Group; the other is "Puli Capsule" which is classified as an over-the-counter ("OTC") medicine which has been the major source of revenue for the Group in Mainland China.

The sales of "Puli Capsule" was approximately RMB84,729,000 (2009: RMB77,624,000), representing approximately 95% of the consolidated turnover of the Group during the year. The Group recorded approximately RMB3,708,000 (2009: RMB5,844,000) from the sales of "Plasmin Capsule" representing approximately 4% of the consolidated turnover of the Group during the year. The Group also recorded approximately RMB789,000 (2009: Nil) from the distribution income of cosmetic right representing 1% of the consolidated turnover of the Group.

In order to improve the sales of "Plasmin Capsule", the Group will continue to focus more on developing the prescription medicine market through doctors in hospitals. Besides, the Group will put more efforts in mass media advertising to further promote the sales of "Puli Capsule" through the OTC medicine market.

The directors believed that the above-mentioned measures will improve the market share of the Group's products and thus the returns to shareholders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the balance of cash and cash equivalents amounted to approximately RMB27,692,000 (2009: RMB18,640,000). During the year, the Group has carried out four funds raising exercises through issue of warrants and new shares. Net proceeds from these funds raising activities amount approximately HK$53,650,000. These capital resources provide a substantial support for the Group to business diversification and general working capital of the Company.

Total loans and borrowings of the Group as at 31 December 2010 are approximately RMB33,968,000 (2009: RMB47,545,000) comprising of secured and unsecured other borrowings. The other borrowings are denominated in Renminbi and the interest rates of which were fixed.

The group's gearing ratio as at 31 December 2010 is 71% (2009: 94%), which is calculated by dividing total liabilities of RMB93,950,000 over total assets of the Group of RMB131,769,000.

As at 31 December 2010, the net current assets of the Group is RMB8,946,000 (2009: net current liabilities of RMB98,662,000) and the current ratio of the Group was approximately 1.1 times (2009: 0.25 times).

FUND RAISING EXERCISE UNDERTAKEN IN 2010

A. On 5 March 2010, the Company entered into the four conditional subscription agreements with the four independent third parties (the "Four Subscribers"). Pursuant to the subscription agreements, the Company agreed to allot and issue, and the Four Subscribers agreed to subscribe for an aggregate of 196,181,818 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.168 per ordinary share.

On 30 March 2010, the condition of the subscription stated in the two subscription agreements has been fulfilled, and the subscription of an aggregate of 49,591,809 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.168 per ordinary share was completed in accordance with their respective terms and conditions. The net proceeds of approximately HK$8,000,000 (approximately equivalent to RMB7,000,000), net of share issuance expenses, was raised for the general corporate and working capital requirements of the Group and as funds for future development of the Company when investment opportunities arise. On the same date, the two supplemental agreements are entered into between the Company and the another two subscribers respectively in relation to the extension of the completion date of each of their conditional subscription agreements. Under these supplemental agreements, the completion date of each of these two conditional subscription agreements is extended to a day on or before 30 June 2010. Save as the aforesaid, the other terms of these two conditional subscription agreements remain valid and continue to be in full force and effect.

On 9 June 2010, the subscription was completed and the Company successfully raised aggregate net funds approximately of HK$8,200,000 by allotment of new shares to the subscribers.

B. On 12 August 2010, the Company entered into two subscription agreements with two subscribers, pursuant to which the subscribers have agreed to subscribe for an aggregate of 146,590,009 new shares in the share capital of the Company with an aggregate nominal value of HK$1,465,900 at a subscription price of HK$0.10 per subscription share.

The subscribers are independent of and not connected with the Company, its subsidiaries, the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

The subscription was completed on 18 August 2010, the Company successfully raised aggregate net funds approximately of HK$14,200,000.

C. On 18 November 2010, the Company and a placing agent entered into a placing agreement pursuant to which the Company has conditionally agreed to place, through the placing agent and on a best effort basis, 255,000,000 new shares to independent investors at the placing price of HK$0.126 per placing share. The placement was completed on 26 November 2010. The placing shares were placed out by the placing Agent to not less than six placees, who and whose ultimate beneficial owners are independent third parties. The Company successfully raised aggregate net funds approximately of HK$31,250,000.

CHARGES ON GROUP ASSETS

At 31 December 2009, leasehold properties and exclusive rights to produce and sell the products of "Puli Capsule" of approximately RMB94,925,000 have been pledged to independent third parties to secure a number of loans granted to the Group. At 31 December 2010, none of the assets of the Group has been pledged to secure any loan granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi and its loans and borrowings are denominated in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Material acquisitions and disposals

On 14 December 2009, the Company entered into an agreement with Wu Ching Por, an independent third party to acquire 100% issued share capital of Jin Hao Limited ("Jin Hao") for an aggregate consideration of HK$9,000,000. Jin Hao is an investment holding company and its subsidiaries are mainly involved in health spa business in China. The transaction was completed on 5 February 2010.

On 14 December 2009, the Company entered into an agreement with Cosmetics Holdings Limited, an independent party to acquire 100% issued share capital of Merry Sky Holdings Limited ("Merry Sky") for an aggregate consideration of HK$10,000,000. Merry Sky is involved in distribution of cosmetic and personal care products. The transaction was completed on 8 February 2010.

On 15 March 2010, Good Wisdom Holdings Limited ("Good Wisdom"), a direct wholly-owned subsidiary of the Company entered into a joint venture agreement with Beijing Haofeng Yangguang Investment and Consultancy Limited Liability Company (北京昊豐陽光投資諮詢有限公司) and Beijing Huoyi Nianhua Media Technology Limited Liability Company (北京火意年華媒體技術有限公司) to establish a joint venture company in Beijing. The Joint venture company will be principally engaged in the provision of develop, invest in, operate and manage media resources. The registered capital of the joint venture company will be approximately RMB17,000,000 which will be contributed as to 29.41% by Good Wisdom. The transaction was completed on 23 April 2010.

On 27 May 2010, Xian Jin Hao Asset Management Company Limited（西安金皓資產管理有限公司）(“JH”), a direct wholly-owned subsidiary of the Company entered into an agreement with Shaanxi Ruide Enterprise Development Company Limited（陝西瑞德實業發展有限公司）(“RD”), pursuant to which the JH has agreed to acquire the operating right of Shaanxi Ruilin Investment Management Company Limited（陝西瑞林投資管理有限公司）(“RL”), which is a 51% shareholder of Annuo Insurance Broker Company Limited（安諾保險經紀有限公司）(“Annuo”), a company incorporated in PRC with limited liability, for a term of 15 years from 1 June 2010 to 31 May 2025 from RD at RMB51,000,000. The transaction has not been completed as of the report date. Up to the latest practicable date, conditions precedent for the completion of the acquisition of operating right of RL have not been fulfilled. Due diligence review is still being conducted on the operations and affairs of RL and Annuo. Certificate from an independent capital verification organisation that the shares of RL have been fully paid up including 51% shareholding rights of Annuo has not been obtained because the share capital of RL has not been fully paid up by RD. RL's articles of association of in relation to the rights of the Company have not been amended by RD. The completion of the Acquisition is subject to the fulfillment of the above conditions precedent.

On 30 August 2010, the Company and Shanxi Huizhong Animation Technology Development Company Limited（山西滙眾動漫科技開發有限公司）entered into an agreement in respect of the disposal of the factory buildings and the land located at Taigu County, Shanxi Province, PRC and the 7 properties in Shanghai at a total consideration of approximately RMB95.4 million. The transaction was completed on 24 November 2010.

On 10 November 2010, a Company's wholly owned subsidiary Xian Jin Hao Asset Management Company Limited（西安金皓資產管理有限公司）entered into an acquisition agreement in relation to the acquisition of 41% equity interest in Jiangyou Yuanshen Pharmaceutical Technology Development Company Limited（江油市元神醫藥科技開發有限公司）to carry out the Chinese medicine business. The transaction was completed on 10 November 2010.

On 24 December 2010, Premium Stars Investments Limited (“PS”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Talent Keen Limited (“TK”) and TK's guarantor, Mr. Choy Kai Chung, Andy, pursuant to which PS conditionally agreed to acquire from TK the entire share capital of Smart Courage Limited at a total consideration of HK$180,000,000. The transaction was completed on 27 May 2011.

MAJOR EVENTS SUBSEQUENT TO THE YEAR

On 29 March 2011, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, to not less than six independent placees for up to 300,000,000 new Shares at a price of HK$0.055 per Placing Share, for and on behalf of the Company. The placement was completed on 21 April 2011.

On 18 May 2011, the Company and Ms. Wu Rong entered into a sale and purchase agreement in relation to the disposal of (i) the entire issued share capital of Top Beauty Holdings Limited (“Top Beauty”), (ii) the interest-free loans amounting to HK$25,270 owing by Top Beauty to the Company and (iii) the interest-free loans amounting to HK$6,011,930 owing by Good Wisdom Holdings Limited to the Company by the Company to Ms. Wu Rong, at a consideration of HK$6,000,000 payable by Ms. Wu Rong to the Company. The disposal was completed on 17 June 2011.

The Company published an announcement dated 8 April 2011 relating to the annual results of the Group for the year ended 31 December 2010 (the "Results Announcement"), to fulfill the requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. The Results Announcement contained qualified audit opinion from the Company's former auditors (the "Former Auditors") due to the reason that they had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Since after the resignation of the Former Auditors on 14 June 2011, the Company has gathered from its associated companies and subsidiaries additional relevant information and documents. The Company subsequently revised the Results Announcement on 15 September 2011.

SIGNIFICANT INVESTMENTS

Save as disclosed above, the Group had no significant investments during the year.

CAPITAL STRUCTURE

On 20 January 2010, special resolutions were passed at an extraordinary general meeting of the Company to implement a capital reorganisation ("the Capital Reorganisation") which, in summary, involved the following:

(a) the nominal value of all the issued existing shares will be reduced from HK$0.10 each to HK$0.01 each by cancelling HK$0.09 paid up on each issued existing share by way of a reduction of capital ("Capital Reduction");

(b) the credit arising from such reduction of capital will be transferred to the capital reduction reserve account of the Company;

(c) the unissued share capital of the Company together with all the credit arising from the Capital Reduction shall be and is hereby cancelled and diminished (the "Capital Cancellation and Diminution"); and

(d) after the Capital Cancellation and Diminution, the authorised share capital of the Company be hereby increased to HK$200,000,000 by creation of additional New Shares of HK$0.01 each (the "Capital Increase").

Further details of Capital Reorganisation are set out in the Company's circular dated 24 December 2009.

The Capital Reduction is subject to the Court's approval, and the Capital Reduction will become effective after the Court's approval and registration of the order of the Court confirming the reduction of the issued share capital of the Company and the minutes approved by the Court at the Registrar of Companies in the Cayman Islands. The Capital Reduction was completed on 2 July 2010.

EMPLOYEE INFORMATION

Currently, the Group has about 130 full-time employees (2009: 130 full-time employees) working in Hong Kong and in Mainland China. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The staff costs, including directors' emoluments, were approximately RMB18,547,000 for the year under review (2009: RMB15,061,000).

CONTINGENT LIABILITIES

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

BUSINESS OUTLOOK AND PROSPECTS

The executive directors still anticipate that fierce competition in the pharmaceutical industry in Mainland China will continue to adversely affect the future earnings and prospects of the Group.

Looking ahead, the Group will continue to streamline its existing business operations and to explore other business opportunities which are in line with the Group's development strategy and will provide long-term benefits to the Company's shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Chi Mang, aged 50, is the founder of the Group. In early 1990's, Mr. Chung became involved in the marketing and distribution of medical and healthcare products. In May 1995, Mr. Chung established and became the chairman and general manager of Shanxi Everpride Pharmaceutical Co., Ltd. ("Shanxi Everpride") which has since been fully devoted to the development of "Plasmin Capsule". Mr. Chung has been engaged in the business development and corporate management for over 20 years, during which he gained wide experience in product development and marketing in the pharmaceutical industry. Mr. Chung is currently a deputy chairman of the Old Aged Dietary Association of China and a director of the Old Aged Foundation of China.

Mr. Zhao Borui, aged 41, is the Vice Chairman of the board of director. Mr. Zhao was educated at the Department of Chinese of Baoji Teacher's College, holding a bachelor's degree. Mr. Zhao has 18 years' experience in business, investment and finance, and has worked for the municipal finance office, investment management companies, business development companies and transportation companies. Mr. Zhao established Annuo Insurance Broker Company Limited (安諾保險經紀有限公司) in September 2004, and has been its chairman since then.

Mr. Hu Yangxiong, aged 50, is the Chief Executive Officer of the Company and joined the Group in July 2009. Mr. Hu graduated from Zhengzhou Airline Industry Management Institute, Beijing Airline, Spaceflight University and Graduate School of the Chinese Academy of Social Sciences with major in Financial Management, Engineering Management and Economic Laws respectively. He is also qualified as CPA of China and Advanced Accountant. Mr. Hu is currently a director of New Taohuayuen Culture Tourism Co. Ltd., the shares of which are listed on the OTC Bulletin Board in the United States. He was an executive director of China Golden Development Holdings Limited which shares are listed in the The Stock Exchange of Hong Kong Limited during the period from March 2006 to March 2010.

Mr. Lee Cheuk Yue, Ryan, aged 28, graduated with distinction from the University of Virginia McIntire School of Commerce with a Bachelor of Science in Commerce degree concentrating in Finance and Accounting and second major in Economics from the College of Arts and Science. Mr. Lee has over 6 years' experience in the investment banking industry and had held various structuring and marketing/sales positions in Banc of America Securities LLC in New York and Deutsche Bank AG in Hong Kong. Mr. Lee is also a Chartered Financial Analyst holder since 2007.

Mr. Chow Yik, aged 29, obtained the degree of Bachelor of Engineering, majoring in Electronic and Communication Engineering, from the City University of Hong Kong. He is highly experienced in commercial businesses. He founded the Vision Century Company in 2003. Moreover, since 2005, Mr. Chow has been the sales director and executive director of the British electronic company, Air Audio (HK) Ltd.

Mr. Leung King Fai, aged 39, graduated from Deakin University with a Bachelor's degree in Commerce. Mr. Leung is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. He joined the Group in November 2005. Mr. Leung has worked for an international audit firm and listed company in Hong Kong. He is an Independent Director of Biostar Pharmaceuticals Inc. (stock code: BSPM.OQ), a company listed on NASDAQ Stock Market.

Independent Non-executive Directors

Mr. Lam Kai Tai, aged 44, was educated at U.C. Berkeley and University of San Francisco as Finance major. In 1997, Mr. Lam joined First Yuanta Securities Ltd. In 2003, Mr. Lam joined Galaxy Entertainment Group (Macau) as Project Manager to oversee the construction and development of Waldo Hotel, Grand Waldo Hotel, Starworld Hotel and Galaxy Macau. Mr. Lam has more than 10 years of experience in project management and merger and acquisition.

Mr. Wong Ting Kon, aged 40, holds a Bachelor degree in Commerce from University of Windsor, Canada. He is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Accountants. He is currently a Partner of Chan Wong & Company C.P.A. Mr. Wong was an independent non-executive director of Sanyuan Group Limited, which was listed on The Stock Exchange of Hong Kong Limited, from March to December 2009.

Ms. Yeung Mo Sheung, Ann, aged 46, joined the Group in 2011. Ms. Yeung holds a Bachelor degree of Retail Marketing with honours in the United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice in the United Kingdom in 1998 and is presently a partner of Messrs. Fung & Fung, Solicitors, a legal firm in Hong Kong. Ms. Yeung was an independent non-executive director of Fast Systems Technology (Holdings) Limited (now known as Seamless Green China (Holdings) Limited), a company listed on the Growth Enterprise Market of the Stock Exchange and currently is an independent non-executive director of Success Universe Group Limited (formerly known as Macau Success Limited).

Senior Management

Mr. Shan Bingwei, aged 57, is a deputy general manager of Shanxi Everpride. He was previously the deputy head of the technical intelligence section of Taiyuan Iron and Steel Factory. In November 1995, Mr. Shan became a deputy general manager of Shanxi Everpride.

Ms. Wang Shulan, aged 72, is a deputy general manager and the chief engineer of Shanxi Everpride. She graduated from the pharmacy department of Shenyang School of Pharmacy, majoring in antibiotics. Ms. Wang joined Taiyuan Pharmaceutical Factory and later became the chief engineer. In October 1995, Ms. Wang joined Shanxi Everpride as the chief engineer in charge of the research, manufacture, development and production technology of "Plasmin Capsule". Ms. Wang is experienced in the research and development and production technology of Chinese and chemical medicines. Ms. Wang was an editor of the Chinese Pharmaceutical Journal, a director of the Shanxi Institute of Pharmacy and a director of the Taiyuan Institute of Pharmacy.

Ms. Lou Xiaofen, aged 48, is the Department Head of Department of Medicine and Science in the Beijing Representative Office of Everpride Pharmaceutical Company (Hong Kong) Ltd. She is responsible for product research and development. Ms. Lou graduated from the Medical School of Zhejiang University. Prior to joining the Group in July 2002, Ms. Lou was the Head of in vitro research group, Department of Pharmacology and Biology, Beijing Representative Office of Pharmagenesis Pharmaceutical Company of the United States.

Dr. Jia Yanjun, aged 42, is the Department head of Medicine and Science in Shanxi Everpride. He is responsible for product research and development. Dr. Jia is a holder of Degree of Doctor of sciences from Chinese Academy of Military Medical Sciences. He has long been engaged in the research on enzymes and human gene transferring. Prior to joining the Group in February 2004, Dr. Jia was an assistant researcher in Chinese Academy of Military Medical Sciences.

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Code on Corporate Governance Practices" (the "CG Code") set out in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31 December 2010, except for deviations from code provisions A.2.1, A4.1 and C.2 which is explained in paragraphs A.2. A.4 and C.2 below, the Group has complied with all code provisions.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals and connected transactions within the meaning of Chapter 20 of the GEM Listing Rules that require shareholders' notification or approval under the GEM Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide sufficient notice to give all directors an opportunity to attend. Regulars meetings are for reviewing and approving the financial and operating performances of the Group as well as considering and approving the overall strategies and policies of the Group. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the articles of association of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. Board papers, together with all appropriate information are sent to all directors at least three (3) days before each Board meetings.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the directors. The company secretary assists in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at Board meetings in 2010 is as follows:

Number of meetings	32
Executive directors:	
Mr. Zhao Borui	32/32 (100%)
Mr. Hu Yangxiong	32/32 (100%)
Mr. Chung Chi Mang	32/32 (100%)
Mr. Zhang Jianshe (Note 1)	2/32 (6.25%)
Mr. Liu Yinxiao (Note 2)	4/32 (12.50%)
Mr. Leung King Fai (Note 3)	9/32 (28.12%)
Mr. Lee Cheuk Yue, Ryan (Note 4)	5/32 (15.62%)
Independent non-executive director:	
Mr. Lam Chung Fai	15/32 (46.88%)
Mr. Fu Wing Kwok, Ewing	1/32 (3.12%)
Mr. Leung Siu Kuen (Note 5)	15/32 (46.88%)
Mr. Sun Xufeng (Note 6)	0/32 (0%)
Mr. Lam Ka Wai, Graham (Note 7)	0/32 (0%)
Average attendance rate	38.28%

Notes:

1. Mr. Zhang Jianshe resigned as an executive director on 20 April 2010

2. Mr. Liu Yinxiao was appointed as an executive director on 28 September 2010 and resigned on 11 January 2011

3. Mr. Leung King Fai was appointed as an executive director on 28 September 2010

4. Mr. Lee Cheuk Yue, Ryan was appointed as an executive director on 17 November 2010

5. Mr. Leung Siu Kuen resigned as an independent non-executive director on 17 November 2010

6. Mr. Sun Xufeng resigned as an independent non-executive director on 5 February 2010

7. Mr. Lam Ka Wai, Graham was appointed as an independent non-executive director on 17 November 2010 and resigned on 17 May 2011

A.2 Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of Chairman of the Board and Chief Executive Officer. As at 31 December 2010, Mr. Zhou Borui is the Vice Chairman and Mr. Hu Yangxiong is the Chief Executive Officer. The Board is identifying suitable candidate to fill the vacancy of the Chairman.

A.3 Board composition

Currently, the Board comprises nine directors: six executive directors and three independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Zhao Borui *(Vice-Chairman)*	
Mr. Hu Yangxiong	Member of the Remuneration Committee
Mr. Lee Cheuk Yue, Ryan	–
Mr. Chow Yik	–
Mr. Chung Chi Mang	–
Mr. Leung King Fai	Member of the Nomination Committee
Independent non-executive directors:	
Mr. Lam Kai Tai	Chairman of the Audit Committee Chairman of the Remuneration Committee Chairman of the Nomination Committee
Mr. Wong Ting Kon	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Ms. Yeung Mo Sheung, Ann	Member of the Audit Committee

The GEM Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Wong Ting Kon is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Accountants. He is currently a partner of Chan Wong & Company, C.P.A..

The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied of their independence.

The Board members do not have any family, financial or business relations with each other.

The biographies of our directors are set out on pages 12 to 13 of this annual report.

The list of directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the non-executive directors (including independent non-executive directors) of the Company were appointed for a term from the date of their respective appointment up to the date of the annual general meeting of the Company for the year ended 31 December 2010. Non-executive directors (including independent non-executive directors) of the Company do not have a specific term of appointment. As the appointment of non-executive directors are subject to the retirement by rotation provisions in the bye-laws of the Company, the Board considers that it is not necessary to appoint the non-executive directors for a specific term. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to the articles of the Company. All directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the articles of association of the Company.

A director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has established a Nomination Committee on 18 November 2009 with written terms of reference. The Nomination Committee comprised of Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive directors, and Mr. Leung King Fai, an executive director. Mr. Lam Kai Tai is the chairman of the Nomination Committee. The Nomination Committee has held one meeting during the year.

The Nomination Committee is responsible for reviewing Board composition, identifying suitable candidates for directorship, assessing the independence of independent non-executive directors, making recommendations to the Board regarding any proposed appointment or re-appointment. The Nomination Committee follows a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the recommendation of the Nomination Committee and the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules.

To comply with the code provision A.4.2 which states that every director of the Company should be subject to the rotation requirement at least once every three years and in accordance with the articles of association of the Company, Mr. Chung Chi Mang will retire by rotation at the forthcoming annual general meeting of the Company to be held on 3 November 2011 and have offered himself for re-election at that annual general meeting.

According to article 87 of the articles of association of the Company, Mr. Leung King Fai, Mr. Lee Cheuk Yue, Ryan, Mr. Chow Yik, Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, who were appointed by the Board as an addition to the Board after the last annual general meeting, will hold office until the forthcoming annual general meeting of the Company to be held on 3 November 2011 and have offered themselves for re-election at that annual general meeting

A.5 Responsibilities of directors

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the GEM Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the GEM Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company. All our directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

The functions of non-executive directors include the functions as specified in code provision A.5.2(a) to (d) of the CG Code.

Every director is aware that he/ she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Rules 5.48 to 5.67 (the "Model Code") of the GEM Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the year ended 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Employees") for securities transactions by employees of the Company, its subsidiaries and its holding company (including directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management for information on the latest developments and financial position of the Company and other information and materials necessary to enable the directors to make informed decisions of the matters to be considered at the Board meetings. The Compliance Officer, the Qualified Accountant and the company secretary attend all regular Board Meetings and when necessary other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company. Mr. Hu Yangxiong, an executive director is currently the Compliance Officer and Mr. Leung King Fai, an executive director is the Qualified Accountant and the company secretary.

All directors are entitled to have access to board papers, minutes and related materials.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 8 August 2006 in accordance with the CG Code. During 2010, the Remuneration Committee has met once which was attended by all its members. The existing members of the Remuneration Committee are Mr. Lam Kai Tai and Mr. Wong Ting Kon, both of whom are independent non-executive directors and Mr. Hu Yangxiong, an executive director. Mr. Lam Kai Tai is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.3(a) to (f) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2010 included reviewing and approving the remuneration package of the directors (including the three independent non-executive directors) and the senior management of the Company.

During the process of consideration, no individual director will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

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

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2010, the directors have:

– approved the adoption of all applicable International Financial Reporting Standards which are issued by the International Accounting Standards Board;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group for the year ended 31 December 2010, the three months ended 31 March 2011 and the six months ended 30 June 2011 have not been published within the timeframe stipulated in Rules 18.66, 18.78 and 18.79 of the GEM Listing Rules. The final results for the year ended 31 December 2010 was published on 8 April 2011 and the revised final results for the year ended 31 December 2010 was published on 15 September 2011. The publication of the quarterly results for the three months ended 31 March 2011 and the interim results for the six months ended 30 June 2011 have been delayed to until 16 September 2011 and 19 September 2011, respectively. The delay in the publication of the final results for the year ended 31 December 2011, the despatch of the annual report for the year ended 31 December 2010 and the publication of the quarterly results for the three months ended 31 March 2011 and the interim results for the six months ended 30 June 2011 constituted a breach of the GEM Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010.

KLC Kennic Lui & Company Limited ("KLC") was appointed as the auditors of the Company on 18 October 2010 following the resignation of CCIF CPA Limited on 26 August 2010. KLC expressed a disclaimer opinion on the financial statements of the Group for the year ended 31 December 2010 because they were unable to obtain sufficient audit evidence on a number of significant matters. The Company announced on 12 May 2011 that the Audit Committee recommended it to engage independent professional parties to investigate and address the audit qualifications and to review the Group's internal control system. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng was appointed as auditors of the Company for the year ended 31 December 2010 to fill the causal vacancy following the resignation of KLC and to hold office until the conclusion of the forthcoming annual general meeting.

For the year ended 31 December 2010, the audit service fees paid or payable by the Company amounted to approximately HK$1,500,000.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 37 of this annual report.

C.2 Internal controls

The Board is entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

Trading in the shares of the Company was suspended with effect from 9:00 a.m. on 11 April 2011 pending the publication of the clarification announcement on the final results for the year ended 31 December 2010. On 12 May 2011, the Company published a clarification announcement which stated, among others, the Audit Committee in the course of reviewing the audited consolidated results for the year ended 31 December 2010 prepared by KLC noted the disclaimer qualification and the areas of internal control weaknesses as contained in the report issued by KLC and expressed the view that the internal reporting and monitoring system of the Group had not been properly implemented and was not adequate to keep the Board informed of the business and the management affairs of the Group.

KL CPA Limited has been appointed by the Company to undertake a review of the internal control system of the Group as recommended by the Audit Committee. As at the date of this report, the review has not yet completed. Further announcement will be made by the Company in this regard as and when necessary.

C.3 Audit Committee

The Audit Committee was established on 5 July 2001 and a terms of reference was adopted. The Terms of Reference of the Audit Committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yeung Mo Sheung, Ann, all of whom are independent non-executive directors. Mr. Lam Kai Tai is the chairman of the Audit Committee. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

During 2010, the Audit Committee met on four (4) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2010 is as follows:

Number of meetings	4
Mr. Lam Chung Fai (Note 1)	4/4 (100%)
Mr. Fu Wing Kwok, Ewing (Note 2)	1/4 (25%)
Mr. Leung Siu Kuen (Note 3)	4/4 (100%)
Mr. Sun Xufeng (Note 4)	0/4 (0%)
Mr. Lam Ka Wai, Graham (Note 5)	0/4 (0%)
Average attendance rate	45%

Notes:

1. Mr. Lam Chung Fai resigned as an independent non-executive director on 1 June 2011

2. Mr. Fu Wing Kwok, Ewing resigned as an independent non-executive director on 11 January 2011

3. Mr. Leung Siu Kuen resigned as an independent non-executive director on 17 November 2010

4. Mr. Sun Xufeng resigned as an independent non-executive director on 5 February 2010.

5. Mr. Lam Ka Wai, Graham was appointed as an independent non-executive director on 17 November 2010 and resigned on 17 May 2011

6. Mr. Lam Kai Tai and Mr. Wong Ting Kon were appointed as independent non-executive directors on 21 April 2011 and Ms. Yeung Mo Sheung, Ann was appointed as a independent non-executive director on 11 January 2011

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report, accounts and quarterly/half/yearly report.

The following is a summary of the work performed by the Audit Committee during 2010:

– reviewing the auditor's management letter and management's response;

– reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

– reviewing the audited financial statements and final results announcement for the year ended 31 December 2009;

– reviewing the interim report and the interim results announcement for the six months ended 30 June 2010;

– reviewing the quarterly reports and the quarterly results announcement for the three months ended 31 March 2010 and 30 September 2010, respectively;

– meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2009 final results;

– meeting with the auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2010 unaudited interim results.

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2010, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

As noted in paragraph C.2 above, the Audit Committee in reviewing the final results for the year ended 31 December 2010 noted the disclaimer opinion and the inadequacy of the internal control system of the Group. The Audit Committee has recommended that independent professional parties to carry out investigation in order to address the audit qualification and carry out a review of the internal control system of the Group.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

This annual report has been reviewed by the Audit Committee.

D. DELEGATION BY THE BOARD

D.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

D.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3), the Remuneration Committee (as described under paragraph B.1) and the Nomination Committee (as described under paragraph A.4), the Board has not established any other committee of the Board.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and special general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

In accordance with the code provision E.1.2 set out in the CG Code, members of the Board have attended the annual general meeting and extraordinary general meeting.

The Chairman of the Board, the chairman of the Audit Committee and the chairman of the Remuneration Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting to answer questions of shareholders.

Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any queries.

E.2 Voting by poll

At the annual general meeting and extraordinary general meetings held in 2010, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of each of the shareholders' meetings.

Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual directors.

The Directors are pleased to present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2010.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2001.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The basis of preparation of the financial statements is set out in Note 2 to the accompanying consolidated financial statements.

PRINCIPAL PLACE OF BUSINESS AND ACTIVITIES

The Company is a company incorporated in Cayman Islands and domiciled in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report. The Company is an investment holding company. The principal activities of its subsidiaries are detailed in Note 16 to the financial statements.

SEGMENT INFORMATION

Segment information of the Group for the year ended 31 December 2010 is set out in Note 5 to the accompanying consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the five largest customers accounted for approximately 89% of the Group's total turnover. The five largest suppliers accounted for approximately 65% of the Group's total purchases. In addition, the largest customer accounted for approximately 72% of the Group's total turnover while the largest supplier accounted for approximately 38% of the Group's total purchases.

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

RESULTS AND DIVIDENDS

Details of the Group's results for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 39 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out below:

Consolidated results

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**89,226**	83,468	79,226	67,466	77,410
(Loss)/profit before taxation	**(37,703)**	(29,303)	(15,023)	7,352	17,179
Taxation	**(331)**	(2,754)	(4,028)	(3,130)	–
Net(loss)/profit from ordinary activities attributable to shareholders	**38,034**	(32,057)	(19,051)	4,222	17,179

Consolidated assets and liabilities

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value:					
Non-current assets	**28,873**	107,565	71,647	78,669	73,429
Current assets	**102,896**	33,607	17,582	59,561	38,860
Current liabilities	**(93,950)**	(132,269)	(83,432)	(112,352)	(112,475)
Net current assets/(liabilities)	**8,946**	(98,662)	(65,850)	(52,791)	(73,615)
Net assets/(liabilities)	**37,819**	8,903	5,797	25,878	(186)

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's issued share capital, together with the details of the Company's share option scheme are set out in the Notes 29 and 30 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010 and 2009, the Company has no reserves available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in leasehold properties and other property, plant and equipment of the Group during the year are set out in Notes 14 and 15 to the accompanying consolidated financial statements, respectively.

LOANS AND BORROWINGS

Particulars of loans and borrowings of the Group as at 31 December 2010 are set out in Note 27 to the accompanying consolidated financial statements.

CONNECTED TRANSACTIONS

There were no significant connected party transactions entered into by the Group for the year ended 31 December 2010.

DIRECTORS

The Directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chung Chi Mang	
Mr. Hu Yangxiong	
Mr. Zhao Borui	
Mr. Zhang Jianshe	resigned on 20 April 2010
Mr. Liu Yinxiao	appointed on 28 September 2010 and resigned on 11 January 2011
Mr. Leung King Fai	appointed on 28 September 2010
Mr. Lee Cheuk Yue, Ryan	appointed on 17 November 2010
Mr. Chow Yik	appointed on 11 January 2011

Independent Non-executive Directors

Mr. Lam Chung Fai	resigned on 1 June 2011
Mr. Fu Wing Kwok, Ewing	resigned on 11 January 2011
Mr. Leung Siu Kuen	resigned on 17 November 2010
Mr. Sun Xufeng	resigned on 5 February 2010
Mr. Lam Ka Wai, Graham	appointed on 17 November 2010 and resigned on 17 May 2011
Ms. Yeung Mo Sheung, Ann	appointed on 11 January 2011
Mr. Lam Kai Tai	appointed on 21 April 2011
Mr. Wong Ting Kon	appointed on 21 April 2011

In accordance with the Company's articles of association, Messrs. Chung Chi Mang, Leung King Fai, Lee Cheuk Yue, Ryan, Chow Yik , Yeung Mo Sheung, Ann, Lam Kai Tai, and Wong Ting Kon, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to GEM Listing Rule 5.09 and the Company considers the Independent Non-executive Directors remained independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Chung Chi Mang has entered into a service contract for an initial term of three years commencing from 1 November 2000.

The Independent Non-executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party-during or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2010, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken 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 which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity/ Nature of interest	No. of shares (Note 1)	Approximate percentage of interest
Mr. Leung King Fai	Beneficial Owner	660,000 (L)	0.043%

Notes:

1. The letter "L" denotes a long position in shares.

Save as disclosed above, as at 31 December 2010, none of the Directors or Chief Executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken 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 which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBERS OF THE GROUP

So far as known to any Director or Chief Executive of the Company, as at 31 December 2010, persons who have interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Director	**Capacity/ Nature of interest**	**No. of shares** (Note 1)	**Approximate percentage of interest**
Mr. Yip Chi Fai, Stevens (Note 2)	Interest of controlled corporation	193,975,000 (L)	12.66%
Beckon Investments Limited	Beneficial owner	193,975,000 (L)	12.66%
Mr. Liu Yinxiao	Beneficial owner	110,000,000 (L)	7.18%
Mr. Zhang Jinxing	Beneficial owner	86,350,000 (L)	5.64%

Notes:

1. The letter "L" denotes a long position in shares of the Company.

2. Mr. Yip Chi Fai, Stevens is deemed or taken to be interested in these shares which are beneficially owned by Beckon Investments Limited, a company wholly-owned by him, under the SFO.

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

Pursuant to a share option scheme adopted by the Company on 24 September 2009, the Directors may, at their discretion, offer to consultants, advisors, service providers, full-time employees and Executive Directors of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest immediate from the date of grant and are then exercisable within a period of ten years.

At 31 December 2010, the directors, a former director, employees, consultants, advisors and other service providers of the company had the following interests in options to subscribe for shares of the company granted for nil consideration under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 of the company.

Details of grantees	No. of options outstanding	Date granted	Period during which options are exercisable	Exercise price per share
Hu Yangxiong *(Director)*	86,760,000	20 January 2010	2 December 2009 to 1 December 2019	HK$0.2488
Zhao Borui *(Director)*	7,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211
Leung King Fai *(Director)*	4,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211
Consultants, Former Director, Advisers, Employees & Service Providers	54,000,000	11 November 2009	11 November 2009 to 10 November 2019	HK$0.211

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

* being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Information on the accounting policy for share options granted and the weighted average value per option is provided in Notes 3 and 24 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December 2010, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

COMPETING INTEREST

Up to the date of this report, none of the Directors or the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) of the Company has an interest in any business which directly or indirectly competes with the business of the Group, or has any other conflict of interests with the Group.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in Note 30 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established an audit committee in July 2001 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal monitoring system of the Group. The audit committee has three members comprising Mr. Lam Kai Tai, Mr. Wong Ting Kon and Ms. Yueng Mo Sheung, Ann, the three Independent Non-executive Directors. The audit committee met four times in 2010. In the course of reviewing the audited consolidated results for the year ended 31 December 2010 prepared by KLC Kennic Lui & Co. Ltd. ("KLC") the audit committee noted the disclaimer qualification and the areas of internal control weaknesses as contained in the report issued by KLC and expressed the view that the internal reporting and monitoring system of the Group had not been properly implemented and was not adequate to keep the Board informed of the business and the management affairs of the Group.

KL CPA Limited has been appointed by the Company to undertake a review of the internal control system of the Group as recommended by the audit committee.

BOARD PRACTICES AND PROCEDURES

For the year under review, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning the board practices and procedures, which applied before the amendment relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report.

SUSPENSION OF TRADING OF THE SHARES

At the request of the Company, trading in of the shares of the Company was suspended from 9:00 a.m. on 1 April 2011 and will remain suspended until further notice. Until satisfaction of all the resumption conditions set by the Stock Exchange, trading in the shares of the Company will continue to be suspended.

The Company's former auditors, KLC Kennic Lui & Co. Ltd. ("KLC"), expressed a disclaimer of opinion on the financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 because they were unable to obtain sufficient audit evidence on a number of significant matters. The Company announced on 12 May 2011 that the audit committee of the Company recommended it to engage independent professional parties to investigate and address the audit qualifications and to review the Group's internal control system. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng ("HLB") was appointed as auditors of the Company for the year ended 31 December 2010 to fill the causal vacancy following the resignation of KLC and to hold the office until the conclusion of the next annual general meeting of the Company.

The Company is taking necessary steps to fulfill the above conditions imposed by the Stock Exchange. An independent professional firm, KL CPA Limited was appointed to review the Group's internal controls and financial reporting procedures.

AUDITORS

The Group's financial statements were previously audited by Messrs. CCIF CPA Limited (the "CCIF"). KLC Kennic Lui & Co. Ltd. (the "KLC") was appointed as the auditors of the Company on 18 October 2010 following the resignation of CCIF with effect from 26 August 2010. KLC resigned as auditors of the Group with effect from 14 June 2011. HLB Hodgson Impey Cheng (the "HLB") was appointed as auditors of the Company to fill the causal vacancy following the resignation of KLC and to hold the office until the conclusion of the next annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting to appoint Messrs. HLB Hodgson Impey Cheng as auditors.

On behalf of the Board
Zhao Borui
Vice Chairman

Hong Kong, 15 September 2011

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

To the shareholders of
Hao Wen Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hao Wen Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2010, and 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 International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

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

OTHER MATTERS

1. The consolidated financial statements of the Group for the year ended 31 December 2009, were audited by another auditor who expressed a modified opinion on those statements on 20 April 2010.

2. Without qualifying our opinion, the Company published an announcement dated 8 April 2011 relating to the annual results of the Group for the year ended 31 December 2010 (the "Results Announcement"), to fulfill the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Results Announcement contained qualified audit opinion from the Company's former auditors (the "Former Auditors") due to the reason that they had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Since after the resignation of the Former Auditors on 14 June 2011, the Company has gathered from its associated companies and subsidiaries additional relevant information and documents. The Company subsequently revised the Results Announcement on 15 September 2011.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 15 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	4	**89,226**	83,468
Cost of sales		**(26,945)**	(24,133)
Gross profit		**62,281**	59,335
Other gains and loss	6	**(10,041)**	(2,784)
Selling and distribution expenses		**(43,251)**	(36,504)
General and administrative expenses		**(43,246)**	(38,439)
Loss from operations		**(34,257)**	(18,392)
Share of results of associates	19	**(752)**	–
Finance costs	7(a)	**(2,694)**	(10,911)
Loss before taxation	7	**(37,703)**	(29,303)
Income tax expenses	8(a)	**(331)**	(2,754)
Loss for the year		**(38,034)**	(32,057)
Other comprehensive loss, net of tax			
Exchange differences on translating foreign operations		**(776)**	(24)
Total comprehensive loss for the year		**(38,810)**	(32,081)
Loss for the year attributable to owners of the Company		**(38,034)**	(32,057)
Total comprehensive loss for the year attributable to owners of the Company		**(38,810)**	(32,081)
Loss per share	13		
Basic (RMB cents)		**(3.33)**	(4.35)
Diluted (RMB cents)		**(3.33)**	(4.35)

The accompanying notes form an integral parts of these consolidated financial statement.

STATEMENTS OF FINANCIAL POSITION

At 31 December 2010

	Notes	The Group 2010 RMB'000	The Group 2009 RMB'000	The Company 2010 RMB'000	The Company 2009 RMB'000
Non-current assets					
Leasehold properties	14	**–**	94,930	**–**	–
Plant and equipment	15	**12,252**	12,635	**118**	125
Investment properties	16	**1,670**	–	**–**	–
Intangible assets	17	**3,472**	–	**–**	–
Goodwill	18	**6,821**	–	**–**	–
Interests in associates	19	**4,658**	–	**–**	–
Investments in subsidiaries	20	**–**	–	**14,351**	1
		28,873	107,565	**14,469**	126
Current assets					
Inventories	22	**4,729**	5,241	**–**	–
Trade and other receivables	23	**67,892**	9,726	**12,921**	2,689
Financial assets at fair value through profit or loss	24	**2,583**	–	**–**	–
Cash and bank balance	25	**27,692**	18,640	**656**	15,139
		102,896	33,607	**13,577**	17,828
Current liabilities					
Trade and other payables	26	**59,853**	80,769	**1,874**	9,051
Loans and borrowings	27	**33,968**	47,545	**–**	–
Current taxation liabilities	28	**129**	3,955	**–**	–
		93,950	132,269	**1,874**	9,051
Net current assets/(liabilities)		**8,946**	(98,662)	**11,703**	8,777
Total assets less current liabilities		**37,819**	8,903	**26,172**	8,903
Net assets		**37,819**	8,903	**26,172**	8,903
Capital and reserves attributable to owners of the Company					
Share capital	29	**14,607**	92,623	**14,607**	92,623
Reserves		**23,212**	(83,720)	**11,565**	(83,720)
Total equity		**37,819**	8,903	**26,172**	8,903

The consolidated financial statement were approved and authorised for issue by the board of directors on 15 September 2011 and are signed on its behalf by:

Chung Chi Mang
Director

Zhao Borui
Director

The accompanying notes form an integral parts of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Share premium	Capital reserve	Capital reduction reserve	Warrants reserve	Share-based compensation reserve	General reserve fund	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	75,438	10,058	7,195	–	–	–	9,025	(664)	(95,255)	5,797
Loss for the year	–	–	–	–	–	–	–	–	(32,057)	(32,057)
Other comprehensive loss for the year	–	–	–	–	–	–	–	(24)	–	(24)
Total comprehensive loss for the year	–	–	–	–	–	–	–	(24)	(32,057)	(32,081)
Issue of warrants, net of warrant issuance expenses	–	–	–	–	204	–	–	–	–	204
Shares issued upon the exercise of warrants	3,878	217	–	–	(62)	–	–	–	–	4,033
Shares issued pursuant to share subscription, net of share issuance expenses	12,690	6,209	–	–	–	–	–	–	–	18,899
Shares issued under share option scheme	617	1,730	–	–	–	(1,045)	–	–	–	1,302
Equity settled share-based transaction	–	–	–	–	–	10,749	–	–	–	10,749
At 31 December 2009	92,623	18,214	7,195	–	142	9,704	9,025	(688)	(127,312)	8,903
At 1 January 2010	92,623	18,214	7,195	–	142	9,704	9,025	(688)	(127,312)	8,903
Loss for the year	–	–	–	–	–	–	–	–	(38,034)	(38,034)
Other comprehensive loss for the year	–	–	–	–	–	–	–	(776)	–	(776)
Total comprehensive loss for the year	–	–	–	–	–	–	–	(776)	(38,034)	(38,810)
Issue of shares as consideration for acquisition of Jin Hao	1,795	1,077	–	–	–	–	–	–	–	2,872
Issue of shares as consideration for acquisition of Merry Sky	3,993	3,195	–	–	–	–	–	–	–	7,188
Shares issued pursuant to share subscription, net of share issuance expenses	5,634	13,962	–	–	–	–	–	–	–	19,596
Share capital reduction	(92,489)	–	–	92,489	–	–	–	–	–	–
Issue of warrant, net of warrant issuance expenses	869	177	–	–	(142)	–	–	–	–	904
Issue of shares upon placing, net of share issuance expenses	2,182	24,585	–	–	–	–	–	–	–	26,767
Equity settled share-based transaction	–	–	–	–	–	10,399	–	–	–	10,399
At 31 December 2010	14,607	61,210	7,195	92,489	–	20,103	9,025	(1,464)	(165,346)	37,819

The accompanying notes form an integral parts of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Operating activities			
Loss before taxation		**(37,703)**	(29,303)
Adjustments for:			
Amortisation of land lease premium		**207**	276
Depreciation	7(c)	**5,400**	4,185
Fair value loss of investment properties	6	**80**	–
Amortisation of intangible assets	7(c)	**1,199**	–
Impairment loss of intangible assets	6	**2,522**	–
Impairment loss of interests in associates	6	**2,990**	–
Impairment loss of available-for-sale investments	6	**1,200**	–
Impairment loss of trade and other receivables	6	**4,349**	1,046
Write-off of other receivables		**–**	705
Share of loss of associates		**752**	–
Fair value loss on financial assets at fair value through profit or loss	6	**1,717**	–
Interest expense	7(a)	**2,699**	10,915
Interest income	7(a)	**(5)**	(4)
(Gain)/loss on disposal of leasehold properties and plant and equipment		**(2,204)**	1,207
Equity-settled share-based payment expenses	7(c)	**10,399**	10,749
Net foreign exchange gain		**–**	(23)
Operating cash flows before movement in working capital		**(6,398)**	(247)
Decrease in inventories		**512**	2,229
Increase in trade and other receivables		**(62,515)**	(2,997)
Increase in trade and other payables		**40,034**	2,983
Cash generated from operations		**(28,367)**	1,968
Tax paid		**(4,157)**	(254)
Net cash (used in)/generated from operating activities		**(32,524)**	1,714

	Notes	2010 RMB'000	2009 RMB'000
Investing activities			
Purchase of plant and equipment		**(3,516)**	(41,586)
Purchase of investment properties		**(1,750)**	–
Purchase of available-for-sale investments		**(1,200)**	–
Purchase of financial assets at fair value through profit or loss		**(4,272)**	–
Net cash outflow on acquisition of associates		**(8,400)**	–
Net cash outflow on acquisition of subsidiaries		**(3,949)**	–
Interest received		**5**	4
Net cash used in investing activities		**(23,082)**	(41,582)
Financing activities			
Net repayment to a director		**–**	(1,367)
Repayment of other borrowings		**(6,112)**	(19,292)
Proceeds from new other borrowings		**27,000**	54,337
Net proceeds from issuance of warrants, net of warrant issuance expenses		**–**	204
Net proceeds from shares issued upon the exercise of warrants, net of shares issuance expense	29(b)(i)	**904**	4,033
Net proceeds from shares issued pursuant to share subscription, net of shares issuance expenses	29(b)(ii)	**19,596**	18,899
Net proceeds from shares issued under share option scheme	29(b)(iii)	**–**	1,302
Net proceeds from shares issued upon placing, net of share issuance expense	29(b)(vi)	**26,767**	–
Interest paid	7(a)	**(2,699)**	(1,239)
Net cash generated from financing activities		**65,456**	56,877
Net increase in cash and cash equivalents		**9,850**	17,009
Cash and cash equivalents at the beginning of year	25	**18,640**	1,631
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(798)**	–
Cash and cash equivalents at 31 December	25	**27,692**	18,640

1. GENERAL INFORMATION

Hao Wen Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands, and its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 July 2001. The address of the registered office and principal place of business of the Company are disclosure in the corporate information of the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in the manufacture and sales of medicines.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(e) provides information on any changes in accounting policies resulting from initial application relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the investment properties and certain financial instruments, which are measured at fair value, as explained in accounting policies set out below.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its operating subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

2. BASIS OF PREPARATION *(Continued)*

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and report amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are disclosed in note 37.

(e) Application of New and Revised International Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are effective for the Group's financial year beginning on 1 January 2010 and relevant to the Group financial statements.

IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (as revised in 2008)	Business combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 28 (as revised in 2008)	Investments in Associates
IAS 39 (Amendments)	Eligible hedged items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of non-cash assets to owners

The application of the new and revised IFRSs in the current year had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3(as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

2. BASIS OF PREPARATION *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

IFRS 3 (as revised in 2008) Business Combinations (Continued)

The impact of the application of IFRS 3 (as revised in 2008) is as follow:

(i) It allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

(ii) It changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

(iii) It requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

(iv) It requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

Amendments to IFRS 2 Share-based Payment

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

2. BASIS OF PREPARATION *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under IAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

IAS 28 (as revised in 2008) Investments in Associates

The principle adopted under IAS 27 (as revised in 2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

2. BASIS OF PREPARATION *(Continued)*

(e) Application of New and Revised International Financial Reporting Standards *(Continued)*

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

IFRIC 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

Improvements to IFRSs issued in 2009

The application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7	Disclosures – Transfer of financial assets[3]
IFRS 9	Financial instruments[4]
IFRS 10	Consolidated financial statement[4]
IFRS 11	Joint arrangement[4]
IFRS 12	Disclosure of interests in other entities[4]
IFRS 13	Fair value measurement[4]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
IAS 19 (Revised 2011)	Employee benefit[4]
IAS 24 (Revised 2009)	Related party disclosures[6]
IAS 27 (Revised 2011)	Separate financial statement[4]
IAS 28 (Revised 2011)	Investments in associates and joint venture[4]
IAS 32 (Amendments)	Classification of rights issues[7]
IFRIC – INT 14 (Amendments)	Prepayments of a minimum funding requirements[6]
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured 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 Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). 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 IAS 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

(iii) Changes in the Group's ownership interests in existing subsidiaries (Continued)

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

(iv) Business combinations

Business combinations that took place on or after 1 January 2010

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 at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations (Continued)

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 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 another measurement basis required by another standard.

Where the consideration the Group transfers 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 considered 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 being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Business combinations (Continued)

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.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or 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.

(b) Investments in subsidiaries

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses.

(c) Investments 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 classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. 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 exceeds the Group's 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 the associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an 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 IAS 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 IAS 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 IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, 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 IAS 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. 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 profit or loss on disposal.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed items of assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses arising on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion/acquisition.

– Machinery and equipment	8 – 10 years
– Furniture and office equipment	5 – 8 years
– Motor vehicles	5 – 8 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(iv) Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses. Cost comprises direct costs of construction incurred during the periods of construction.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

(f) Leased assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of the building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets

(i) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and 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 accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

(iv) Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives are 5 to 10 years.

The amortisation method and useful life of the intangible assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated based on the weighted average costing method (which approximates the average actual cost) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Financial instruments

Financial assets and financial liabilities are recognised 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 and 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

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at financial asset at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

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, cash and bank balance) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (see out above). At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or 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).

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

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

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

(a) significant financial difficulty of the issuer or counterparty; or

(b) breach of contract, such as a default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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 estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of 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

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial liabilities

Financial liabilities including trade and other payables, and loans and borrowings, are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

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. 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 comprehensive income.

For financial liabilities, they are removed from the Group's consolidated statement of financial positions when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated statement of comprehensive income.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(l) Borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenues and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue excludes value added tax or other sales taxes and is stated after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share-based compensation reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account or the option expires (when it is released directly to retained profits).

(p) Finance income and costs

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(r) Provisions and contingent liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position's items are translated into Renminbi at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various line of business and geographical locations.

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 products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. TURNOVER

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of goods returns and trade discounts.

5. SEGMENT REPORTING

Throughout the year, the Group has been operating in a single business segment, the manufacture and sale of medicines in Mainland China. Accordingly, no segmental analysis is presented.

Information about major customers

Revenue of approximately RMB64,329,000 (2009: RMB47,294,000) are derived from one (2009: two) single external customers. Transactions with each of these major customers have exceeded 10% of the Group's turnover.

6. OTHER GAINS AND LOSS

	2010 RMB'000	2009 RMB'000
Sample income	**211**	173
Gain/(loss) on disposal of leasehold properties and plant and equipment	**2,204**	(1,207)
Sundry income	**402**	1
Impairment loss recognised in respect of trade receivables	**(4,349)**	(1,046)
Impairment loss of available-for-sale investments	**(1,200)**	–
Impairment loss of intangible assets	**(2,522)**	–
Impairment loss of interests in associates	**(2,990)**	–
Fair value loss of investment properties	**(80)**	–
Fair value loss on financial assets at fair value through profit or loss	**(1,717)**	–
Write-off of other receivables	**–**	(705)
Total	**(10,041)**	(2,784)

7. LOSS BEFORE TAXATION

Loss before taxation is arrived after charging/(crediting):

(a) Net finance costs/(income):

	2010 RMB'000	2009 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**2,699**	10,915
Bank interest income	**(5)**	(4)
Net financial costs recognised in consolidated statement of comprehensive income	**2,694**	10,911

The following is an analysis of net finance costs/(income):

	2010 RMB'000	2009 RMB'000
Total interest income earned on financial assets that are not designated as at fair value through profit or loss – Loans and receivables (including cash and bank balance)	**5**	4
Total interest expenses for financial liabilities that are not designated as at fair value through profit or loss	**2,699**	10,915

(b) Staff costs:

	2010 RMB'000	2009 RMB'000
Contributions to defined contribution plans	**3,075**	1,070
Equity-settled share-based payment expenses	**–**	2,986
Salaries, wages and other benefits	**15,472**	11,005
Total staff costs	**18,547**	15,061

7. LOSS BEFORE TAXATION *(Continued)*

(c) Other items

	2010 RMB'000	2009 RMB'000
Amortisation of intangible assets	1,199	–
Amortisation of land lease premium	207	276
Depreciation of property, plant and equipment	5,400	4,185
Research and development costs	–	487
Operating lease charges in respect of property rentals:		
minimum lease payments	492	737
Advertising and promotion expenses	33,793	23,863
Auditors' remuneration		
– audit services	1,500	670
Cost of inventories sold	26,945	24,133
Equity-settled share-based payment expenses	10,399	10,749

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2010 RMB'000	2009 RMB'000
Current tax		
PRC enterprise income tax for the year	331	2,754

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising from Hong Kong during the years ended 31 December 2010 and 2009.

(ii) Income taxes outside Hong Kong

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

The subsidiary of the Group established in the PRC is subject to PRC enterprise income tax on its taxable income at an income tax rate of 25% in respect of the year ended 31 December 2010 (2009: 25%).

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(37,703)**		(29,303)	
Notional tax on loss before taxation calculation at the PRC enterprise income tax rate of 25% (2009: 25%)	**(9,426)**	**(25.0)**	(7,326)	(25.0)
Tax effect non-deductible expenses	**6,873**	**18.2**	8,060	27.5
Tax effect of non-taxable income	**–**	**–**	(1)	–
Tax effect of unused tax losses not recognised	**1,220**	**3.2**	253	0.9
Tax effect of different tax rates in other jurisdictions	**1,664**	**4.5**	1,768	6.0
Income tax expenses for the year	**331**	**0.9**	2,754	9.4

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2010 Sub-Total RMB'000	Share-based payments (note) RMB'000	2010 Total RMB'000
Executive directors:						
Chung Chi Mang	–	–	–	–	–	–
Hu Yangxiong	–	909	8	917	10,399	11,316
Zhao Borui	–	170	–	170	–	170
Zhang Jianshe (resigned on 20/04/2010)	–	97	–	97	–	97
Liu Yinxiao (appointed on 28/09/2010 and resigned on 11/01/2011)	–	26	–	26	–	26
Leung King Fai (appointed on 28/09/2010)	–	121	2	123	–	123
Lee Cheuk Yue, Ryan (appointed on 17/11/2010)	–	19	–	19	–	19
Chow Yik (appointed on 11/01/2011)	–	–	–	–	–	–
Independent non-executive directors:						
Fu Wing Kwok. Ewing (resigned on 11/01/2011)	85	–	–	85	–	85
Leung Siu Kuen (resigned on 17/11/2010)	77	–	–	77	–	77
Lam Chung Fai (resigned on 11/01/2011)	85	–	–	85	–	85
Sun Xufeng (resigned on 5/2/2010)	8	–	–	8	–	8
Lam Ka Wai, Graham (appointed on 17/11/2010 and resigned on 17/05/2011)	10	–	–	10	–	10
Yeung Mo Sheung, Ann (appointed on 11/01/2011)	–	–	–	–	–	–
Lam Kai Tai (appointed on 21/04/2011)	–	–	–	–	–	–
Wong Ting Kon (appointed on 21/04/2011)	–	–	–	–	–	–
	265	1,342	10	1,617	10,399	12,016

9. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2009 Sub-Total RMB'000	Share-based payments (note) RMB'000	2009 Total RMB'000
Executive directors:						
Chung Chi Mang	–	684	7	691	–	691
Hu Yangxiong (appointed on 20/7/2009)	–	896	–	896	–	896
Zhao Borui (appointed on 21/10/2009)	–	62	–	62	1,045	1,107
Zhang Jianshe (appointed on 21/10/2009 and resigned on 20/4/2010)	–	62	–	62	1,045	1,107
Sun Qiong (appointed on 20/7/2009 and resigned on 21/10/2009)	–	15	–	15	–	15
Zhong Zhi Gang (resigned on 20/7/2009)	–	127	6	133	–	133
Xie Xiaodong (resigned on 20/7/2009)	–	127	6	133	–	133
Mu Yong (retired on 11/5/2009)	–	42	–	42	–	42
Independent non-executive directors:						
Fu Wing Kwok. Ewing (appointed on 30/11/2009)	5	–	–	5	–	5
Leung Siu Kuen (appointed on 30/11/2009)	5	–	–	5	–	5
Lam Chung Fai (appointed on 7/12/2009)	4	–	–	4	–	4
Sun Xufeng (appointed on 28/9/2009 and resigned on 5/2/2010)	14	–	–	14	–	14
Wu Wang Li (appointed on 15/5/2009 and resigned on 24/7/2009)	11	–	–	11	–	11
Zhuo Ze Fan (appointed on 24/7/2009 and resigned on 28/9/2009)	10	–	–	10	–	10
Chan Wai Kwong, Peter (appointed on 19/8/2009 and resigned on 7/12/2009)	16	–	–	16	–	16
Yang Gao Yu (appointed on 24/7/2009 and resigned on 30/11/2009)	20	–	–	20	–	20
Chau On Ta Yuen (resigned on 20/8/2009)	36	–	–	36	–	36
Ho Leong Leong, Lawrence (resigned on 19/8/2009)	36	–	–	36	–	36
Ng Kay Kwok (resigned on 15/5/2009)	21	–	–	21	–	21
	178	2,015	19	2,212	2,090	4,302

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(o)(ii).

The details of those benefits in kind, including the principal terms and number of options granted, are disclosed in note 30.

For the years ended 31 December 2010 and 2009, no emolument was paid to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2010 and 2009.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2009: four) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other one individual for the year ended 31 December 2009 was as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other emoluments	–	530
Share-based payments	–	597
Retirement scheme contributions	–	18
	–	1,145

The emoluments of the other one individual for the year ended 31 December 2009 with the highest emoluments are within the following bands:

	Number of individuals	
	2010	2009
Nil – RMB1,000,000	–	–
RMB1,000,001 to RMB1,500,000	–	1

For the years ended 31 December 2010 and 2009, no emolument was 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.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB49,753,000 (2009: RMB32,050,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: HK$Nil).

13. LOSS PER SHARE

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB38,034,000 (2009: approximately RMB32,057,000) and weighted average number of approximately 1,141,771,000 (2009: approximately 736,996,000) ordinary shares.

(b) *Diluted loss per share*

The diluted loss per share for the years ended 31 December 2010 and 2009 were same as the basic loss per share because the exercise prices of the Company's share options and warrants were higher than the average market price of the shares.

14. LEASEHOLD PROPERTIES

(a) Movements in leasehold properties are as follows:

	The Group		
	Interests in leasehold land held for own use under operating leases RMB'000	**Buildings held for own use carried at cost** RMB'000	**Total** RMB'000
Cost			
At 1 January 2009	12,999	55,359	68,358
Transfer from construction in progress	–	54,626	54,626
At 31 December 2009 and at 1 January 2010	12,999	109,985	122,984
Disposals	(12,999)	(109,985)	(122,984)
At 31 December 2010	–	–	–
Accumulated amortisation and depreciation			
At 1 January 2009	1,464	24,783	26,247
Exchange adjustments	–	(1)	(1)
Charge for the year	276	1,532	1,808
At 31 December 2009 and at 1 January 2010	1,740	26,314	28,054
Charge for the year	207	2,388	2,595
Disposals	(1,947)	(28,702)	(30,649)
At 31 December 2010	–	–	–
Carrying amounts			
At 31 December 2010	–	–	–
At 31 December 2009	11,259	83,671	94,930

14. LEASEHOLD PROPERTIES *(Continued)*

(b) The analysis of carrying amount of leasehold land held for own use under operating leases is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
In the PRC		
– medium-term leases (note)	**–**	10,656
– long leases	**–**	603
	–	11,259

Note:

Included in interests in leasehold land held for own use under operating leases is the land use right under medium-term leases which comprises land use fees paid to the government of Taigu County for the rights to use the land where the Group's factory buildings in Taigu County of Shanxi Province are located.

(c) At 31 December 2009, leasehold properties of approximately RMB94,925,000 have been pledged to independent third parties to secure loans granted to the Group.

15. PLANT AND EQUIPMENT

Movements in plant and equipment are as follows:

	The Group					The Company
	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000	Furniture and office equipment RMB'000
Cost						
At 1 January 2009	13,098	5,983	11,120	15,977	46,178	–
Exchange adjustments	–	(1)	(2)	–	(3)	(1)
Additions	343	592	756	39,895	41,586	137
Transfer from construction-in-progress to furniture and office equipment	–	596	–	(596)	–	–
Transfer to leasehold properties	–	–	–	(54,626)	(54,626)	–
Disposals	(2,331)	(193)	–	–	(2,524)	–
At 31 December 2009	11,110	6,977	11,874	650	30,611	136
At 1 January 2010	11,110	6,977	11,874	650	30,611	136
Exchange adjustments	–	(10)	–	–	(10)	(6)
Additions	–	390	3,126	–	3,516	33
Disposals	–	(160)	(3,149)	(650)	(3,959)	–
At 31 December 2010	11,110	7,197	11,851	–	30,158	163
Accumulated amortisation and depreciation						
At 1 January 2009	5,982	3,320	7,340	–	16,642	–
Exchange adjustments	–	–	(2)	–	(2)	–
Change for the year	1,359	428	866	–	2,653	11
Written back on disposals	(1,317)	–	–	–	(1,317)	–
At 31 December 2009	6,024	3,748	8,204	–	17,976	11
At January 2010	6,024	3,748	8,204	–	17,976	11
Exchange adjustments	–	(4)	–	–	(4)	(2)
Change for the year	1,363	694	955	–	3,012	36
Written back on disposals	–	(152)	(2,926)	–	(3,078)	–
At 31 December 2010	7,387	4,286	6,233	–	17,906	45
Carrying amounts						
At 31 December 2010	3,723	2,911	5,618	–	12,252	118
At 31 December 2009	5,086	3,229	3,670	650	12,635	125

16. INVESTMENT PROPERTIES

	The Group	
	2010 **RMB'000**	2009 RMB'000
Completed investment properties at fair value:		
At 1 January	**–**	–
Additions	**1,750**	–
Fair value loss	**(80)**	–
At 31 December	**1,670**	–

(a) Valuation of investment properties

The investment properties amounted of approximately RMB1,670,000 (2009: Nil) of the Group were stated at fair value as at 31 December 2010. The fair value was arrived at on the basis of valuations carried out at the date by an independent firm of qualified professional valuers not connected to the Group, Asset Appraisal Limited, ("AAL"), who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the properties being valued. The valuations conform to the Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

(b) The analysis of the carrying amount of investment properties is as follows:

	2010 **RMB'000**
In the PRC	
– medium-term leases	**1,670**

(c) At 31 December 2010, the Group had been applying for the premises permit in respect of investment properties owned by the Group.

17. INTANGIBLE ASSETS

Movements in intangible assets of the Group are as follows:

The Group

	Exclusive rights RMB'000 (note a)	Exclusive skin care products distribution license RMB'000 (note b)	Total RMB'000
Cost			
At 1 January 2009, 31 December 2009 and 1 January 2010	5,000	–	5,000
Acquisition (note 36)	–	7,193	7,193
At 31 December 2010	5,000	7,193	12,193
Accumulated amortisation and impairment			
At 1 January 2009, 31 December 2009 and 1 January 2010	5,000	–	5,000
Amortisation expenses	–	1,199	1,199
Impairment loss	–	2,522	2,522
At 31 December 2010	5,000	3,721	8,721
Carrying amounts			
At 31 December 2010	–	3,472	3,472
At 31 December 2009	–	–	–

(a) Intangible assets represent exclusive rights acquired by the Group to produce and sell the products of "Plasmin Capsule" and "Puli Capsule" within and outside the PRC.

At 31 December 2009, the exclusive right to produce and sell the products of "Puli Capsule" has been pledged to an independent third party to secure a loan granted to the Group (See note 27).

17. INTANGIBLE ASSETS *(Continued)*

(b) The exclusive skin care products distribution license's useful life used in the calculation of amortisation is 6 years.

During the year, as the result of the unexpected poor performance of the distribution of skin care products in the PRC, the Group carried out a review of the recoverable amount of the exclusive skin care products distribution license. The value-in-use at 31 December 2010 is calculated to be lower than the carrying amount of the exclusive skin care products distribution license and accordingly an impairment loss of approximately RMB2,522,000 was recognised in 2010. The impairment loss is included in "other gains and loss" in the consolidated statement of comprehensive income.

The recoverable amount of exclusive skin care products distribution license is determined based on value-in-use calculations. The impairment review of the distribution skin care product license is based on the expected future cash flows and based on the financial budgets approved by management covering a 5-year period. Discount rate of 9.97% is applied on the value-in-use calculations.

18. GOODWILL

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
At 1 January	**–**	–
Acquisition of subsidiaries (note 35)	**6,821**	–
At 31 December	**6,821**	–
Accumulated impairment loss:		
At 1 January	**–**	–
Impairment loss	**–**	–
At 31 December	**–**	–
Carrying amount:		
At 31 December	**6,821**	–

Particulars of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

– Health spa business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	2010
	RMB'000
Health spa business	**6,821**

18. GOODWILL *(Continued)*

The recoverable amount of this cash-generating unit is determined based on value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a two-year period, and a discount rate 19.45% per annum.

The key assumptions used in the value in use calculations are as follows:

Pursuant to the sales and purchase agreement of Jin Hao Limited ("Jin Hao") dated 14 December 2009, the vendor has guaranteed that (i) the average of the actual audited net profits after tax (before any extraordinary items) of Jin Hao's subsidiary located in Zhuhai, the PRC (the "Zhuhai Subsidiary") for the two financial years ending 31 December 2010 and 2011 will not be less than HK$1,000,000 (the "Guaranteed Profit"). It also provided that if the average of the actual audited net profits after tax (before any extraordinary items) of the Zhuhai Subsidiary for the said two financial years falls short of the Guaranteed Profit, the Group will be compensated in cash an amount equal to seven times the profit shortfall, which shall be paid by the vendor to the Company within 15 business days from the date of the auditors' reports in respect of the audited accounts of the Zhuhai Subsidiary for the said two financial years.

As at 31 December 2010, the Zhuhai Subsidiary has not commenced business and in the process to obtain the necessary licenses and approvals from the government in PRC for conducting health spa business in Zhuhai. As a result, it is assumed that compensation will be received from the vendor pursuant to the sales and purchase agreement described above in determining the recoverable amount of the cash generating unit. The directors believe that any reasonably possible 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.

19. INTERESTS IN ASSOCIATES

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost of investments	**8,400**	–
Share of post-acquisition profit	**(752)**	–
	7,648	–
Impairment loss recognised (note)	**(2,990)**	–
At 31 December	**4,658**	–

Note:

During the year, as the result of the unexpected poor performance and significant loss incurred by the associates, the Group carried out a review of the recoverable amount of the Group's interests in associates. The review led to the recognition of an impairment loss of approximately HK$2,990,000, which has been recognised in the consolidated statement of comprehensive income. The recoverable amount of the interests in associates has been determined on the basis of their value in use. In determining the value in use of the interests in associates, the Group estimated its share of the present value of the estimated future cash flows expected to be generated by the associates.

19. INTERESTS IN ASSOCIATES *(Continued)*

At 31 December 2010, the Group had interests in the following associates:

Name of entity	Form of entity, place of incorporation/registration and operations	Particulars of issued share capital	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
江油市元神醫葯科技開發有限公司	Incorporated in the PRC	Registered capital of RMB1,000,000	41%	41%	Research and development on chinese herbal medicine
中視和陽傳媒科技（北京）有限公司	Incorporated in the PRC	Registered capital of RMB17,000,000	29.41%	29.41%	Investing, developing, operating and managing media resources

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Total assets	**22,010**	–
Total liabilities	**(6,161)**	–
Net assets	**15,849**	–
Group's share of net assets of associates	**4,658**	–
Turnover	**501**	–
Loss for the year	**3,341**	–
Group's share of loss of associates	**752**	–
Group's share of other comprehensive expenses	**–**	–

20. INVESTMENTS IN SUBSIDIARIES

In the Company's statement of financial position, investments in subsidiaries consist of:

	The Company	
	2010 **RMB'000**	2009 RMB'000
Unlisted shares, at cost	**70,515**	56,165
Less: Accumulated impairment losses (note)	**(56,164)**	(56,164)
	14,351	1

Note:

In prior years, the subsidiaries incurred losses continuously and the directors of the Company carried out a review on the recoverable amounts of investments in subsidiaries. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries. Accordingly, impairment losses of approximately RMB56,164,000 were made in prior years.

The particulars of all subsidiaries of the Company at 31 December 2010 were as follows:

Name of company	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company: Directly	Indirectly	Principal activities
Garner International Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	100%	–	Investment holding
Everpride Pharmaceutical (H.K.) Company Limited	Hong Kong	100 ordinary shares of HK$1 each	–	100%	Trading of medicines
Scylla Assets Limited	BVI	1,000 ordinary shares of US$1 each	–	100%	Investment holding
山西中遠威藥業有限公司 Shanxi Everpride Pharmaceutical Company Ltd. ("Shanxi Everpride") *	PRC	US$2,280,000	–	100%	Manufacture and sales of medicines
Top Beauty Holdings Limited	BVI	100 ordinary of US$1 each	100%	–	Investment holding
Good Wisdom Holdings Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Investment holding
西安金皓資產管理有限公司	PRC	HK$3,000,000	–	100%	Investment property holding
Premium Stars Investments Limited	BVI	50,000 ordinary shares of US$1 each	100%	–	Investment holding
Jin Hao Limited ("Jin Hao")	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Merry Sky Holdings Limited ("Merry Sky")	BVI	1 ordinary share of US$1 each	100%	–	Cosmetic license holding

* Shanxi Everpride is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to 26 May 2015.

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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. The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length.

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2010	2009
	RMB'000	RMB'000
Unlisted equity securities, at fair value	**–**	–

During the year, the unlisted company had not commenced business as planned, the Group carried out a review of the recoverable amount of the available-for-sale investments. The review led to the recognition of an impairment loss of approximately RMB1,200,000, which has been recognised in the consolidated statement of comprehensive income. The recoverable amount of the available-for-sale investments has been determined on the basis of their value in uses. The discount rate used in measuring value in use was 19.45% per annum.

22. INVENTORIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials, at cost	**3,221**	4,754
Finished goods, at cost	**760**	829
Consignment goods, at cost	**2,548**	1,458
	6,529	7,041
Less: Write-down of inventories	**(1,800)**	(1,800)
	4,729	5,241

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**68,405**	62,082	**–**	–
Less: allowance for doubtful debts (note 23(b))	**(62,419)**	(58,070)	**–**	–
	5,986	4,012	**–**	–
Bills receivables	**1,928**	–	**–**	–
Other receivables	**16,681**	4,244	**520**	115
Rental and other deposits	**35,863**	295	**396**	–
Prepayments	**7,434**	1,175	**406**	794
Amounts due from subsidiaries*	**–**	–	**11,599**	1,780
	67,892	9,726	**12,921**	2,689

* The amounts due from subsidiaries are non-trade nature, unsecured, interest free and repayable on demand. Due to the prolonged poor financial performance of the subsidiaries, the carrying amounts of amounts due from subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered or recognised as expense within one year.

Bills receivables will all mature within 180 days.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

a) Ageing analysis

Included in trade and other receivables are trade debtors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010 **RMB'000**	2009 RMB'000
0 to 30 days	**1,765**	145
31 to 60 days	**1,389**	15
61 to 90 days	**1,838**	357
91 to 180 days	**1,170**	1,392
181 to 365 days	**171**	259
Over 365 days	**62,072**	59,914
	68,405	62,082
Less: allowance for doubtful debts	**(62,419)**	(58,070)
	5,986	4,012

The Group generally requires its customer to pay a deposit shortly before delivery of goods, with the remaining balances of the sales with credit periods ranging from 90 to 180 days. Further details on the Group's policy are set out in note 34(a)(i).

b) Impairment of trade debtors

Impairment losses in respect of trade debtors 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 debtors directly (see note 3(j)).

The movements in the allowance for doubtful debts during the year are as follows:

	The Group	
	2010 **RMB'000**	2009 RMB'000
At January	**58,070**	60,512
Impairment loss recognised	**4,349**	1,046
Uncollectible amounts written off	**–**	(3,488)
At 31 December	**62,419**	58,070

In determining the recoverability of a trade debtors, the Group considers any change in the credit quality of the trade receivables.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Impairment of trade debtors *(Continued)*

At 31 December 2010, the Group's trade debtors of RMB62,419,000 (2009: RMB58,070,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group holds sales deposits from the relevant customers over these balances.

Ageing of impaired trade debtors

	The Group	
	2010 **RMB'000**	2009 RMB'000
Overdue by:		
Less than 6 months	**176**	–
More than 6 months	**62,243**	58,070
	62,419	58,070

c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither past due nor impaired and that are past due but not impaired are as follows:

	The Group	
	2010 **RMB'000**	2009 RMB'000
Neither past due nor impaired	**4,992**	517
Less than 6 months past due	**994**	1,651
More than 6 months past due	**–**	1,844
	994	3,495
Total	**5,986**	4,012

Trade debtors that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balance as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds sales deposits from the relevant customers over these balances.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2010	2009
	RMB'000	RMB'000
Listed investments:		
Equity securities listed in Hong Kong and stated at fair value	**2,583**	–

All financial assets at fair value through profit or loss are stated at fair values. Fair values of the listed investments are determined by reference on the quoted market bid prices available on the Stock Exchange.

25. CASH AND BANK BALANCE

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand, denominated in				
– Hong Kong dollars and United Sates dollars	**23,730**	17,219	**656**	15,139
– Renminbi	**3,962**	1,421	**–**	–
Cash and bank balance in statements of financial position and consolidated statement of cash flows	**27,692**	18,640	**656**	15,139

Cash and bank balance of approximately RMB3,962,000 (2009: RMB1,421,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**3,952**	4,473	**–**	–
Accrued expenses and other payables	**55,901**	74,971	**1,874**	2,482
Amount due to subsidiary*	**–**	–	**–**	5,968
Amount due to directors*	**–**	1,325	**–**	601
	59,853	80,769	**1,874**	9,051

* The amounts due to the subsidiary and the directors are unsecured, non-interest bearing and have no fixed terms of repayment.

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2010	2009
	RMB'000	RMB'000
0 to 30 days	**1,506**	2,442
31 to 60 days	**168**	149
61 to 90 days	**236**	16
91 to 180 days	**245**	49
181 to 365 days	**478**	29
Over 365 days	**1,319**	1,788
	3,952	4,473

The average credit period on purchases of goods is 30 days.

27. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost.

		The Group	
	Notes	**2010** **RMB'000**	2009 RMB'000
Secured interest-bearing loans			
– Loan A	(a)	**–**	19,465
– Loan B	(b)	**–**	15,000
– Loan C	(c)	**–**	5,000
		–	39,465
Unsecured interest-bearing loan			
– Loan D	(d)	**27,000**	–
– Loan E	(e)	**1,208**	1,208
Unsecured non-interest bearing loan	(f)	**3,000**	4,000
Unsecured non-interest bearing loans	(g)	**2,760**	2,872
Amounts shown under current liabilities, on demand or within one year		**33,968**	47,545

Note:

(a) During the year ended 31 December 2009, the Group entered into a loan agreement with an independent third party (the "Party A") whereby the Group borrowed a loan of RMB19,465,000 (the "Loan A") from the Party A for the period from 5 August 2009 to 4 August 2010.

The Loan A bears interest at 42% per annum and is secured by (1) the Group's leasehold properties of approximately RMB66,122,000, (2) two corporate guarantees from two independent third parties and (3) a property owned by an independent third party. During the year ended 31 December 2009, the Group failed to repay the interest of approximately RMB4,317,000 according to this loan agreement, therefore the whole loan amount became due as at 31 December 2009. The Loan A were fully settled and discharged during the year 31 December 2010.

(b) During the year ended 31 December 2009, the Group entered into a loan agreement with an independent third party (the "Party B") whereby the Group borrowed a loan of RMB25,000,000 (the "Loan B") from the Party B for the period from 23 January 2009 to 31 July 2009. The Loan B bears interest at 14% per annum and is secured by (i) the Group's leasehold properties of approximately RMB22,622,000 and (ii) the Group's intangible asset of RMB Nil in respect of the exclusive right to produce and sell the products of "Puli Capsule".

During the year ended 31 December 2009, the Group repaid RMB10,000,000 to the Party B but failed to repay the remaining balance of the Loan B on the maturity date, therefore the whole loan amount became due as at 31 December 2009. The Loan B were fully settled and discharged during the year 31 December 2010.

(c) During the year ended 31 December 2009, the Group entered into a loan agreement with a financial institution (the "Party C") whereby the Group borrowed a loan of RMB5,000,000 (the "Loan C") from the Party C for the period from 30 March 2009 to 20 February 2010.

The Loan C is secured by the Group's leasehold properties of approximately RMB6,181,000, bears interest at 11.88% per annum and is repayable on 20 February 2010. The Loan C were fully settled and discharged during the year 31 December 2010.

27. LOANS AND BORROWINGS *(Continued)*

Note: *(Continued)*

(d) During the year ended 31 December 2010, the Group entered into a loan agreement with a financial institution (the "Party D") whereby the Group borrowed a loan of RMB27,000,000 (the "Loan D") from the Party D for the period from 20 September 2010 to 4 July 2011. The Loan D is unsecured and bearing interest 10.89% per annum.

(e) During the year ended 31 December 2009, the Group entered into a loan agreement with an independent third party (the "Party E") whereby the Group borrowed a loan of RMB2,000,000 (the "Loan F") from the Party F for the period from 17 April 2009 to 16 May 2009. The Loan F is unsecured and bears interest at 36% per annum.

During the year ended 31 December 2009, the Group repaid RMB792,000 to the Party E but failed to repay the remaining balance of Loan E on the maturity date, therefore the whole loan amount became due as at 31 December 2009 and 2010. Up to the date of the issue of these financial statements, the Party E did not take any actions against the Group, and the Group is in ongoing negotiation with the lender to reschedule the loan repayments.

(f) This loan is interest free, is repayable within one year and is secured by (1) a property owned by an independent third party and (2) a personal guarantee put up by another independent third party.

(g) These loans from three independent third parties are unsecured, non-interest bearing and are repayable on demand.

28. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidation statement of financial position represents:

	The Group	
	2010	2009
	RMB'000	RMB'000
Provision for PRC enterprise income tax for the year	**331**	2,754
Balance of provision for PRC enterprise income tax relating to prior years	**–**	1,201
Provisional PRC enterprise income tax paid	**(202)**	–
	129	3,955

(b) Deferred taxation recognised

At the end of the reporting period, no deferred tax assets has been recognised in relation to the deductible temporary difference and tax loses as it is no probable that taxable profit will be available against which the deductible temporary difference and tax loses can be utilised (2009: Nil). The Group and the Company have tax losses of approximately RMB5,613,000 (2009: RMB4,393,000), which do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax liabilities for the reporting period and at the end of the reporting period.

29. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reduction reserve RMB'000	Warrants reserve RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At 1 January 2009	75,438	10,058	56,774	–	–	–	(676)	(135,843)	5,751
Loss for the year	–	–	–	–	–	–	–	(32,025)	(32,025)
Other comprehensive loss for the year	–	–	–	–	–	–	(10)	–	(10)
Total comprehensive loss	–	–	–	–	–	–	(10)	(32,025)	(32,035)
Issue of warrants, net of warrant issuance expenses	–	–	–	–	204	–	–	–	204
Shares issued upon the exercise of warrants	3,878	217	–	–	(62)	–	–	–	4,033
Shares issued pursuant to share subscription, net of share issuance expenses	12,690	6,209	–	–	–	–	–	–	18,899
Shares issued under share option scheme	617	1,730	–	–	–	(1,045)	–	–	1,302
Equity settled share-based transactions	–	–	–	–	–	10,749	–	–	10,749
At 31 December 2009 and 1 January 2010	92,623	18,214	56,774	–	142	9,704	(686)	(167,868)	8,903
Loss for the year	–	–	–	–	–	–	–	(49,753)	(49,753)
Other comprehensive loss for the year	–	–	–	–	–	–	(704)	–	(704)
Total comprehensive loss	–	–	–	–	–	–	(704)	(49,753)	(50,457)
Issue of shares as consideration for acquisition of Jin Hao	1,795	1,077	–	–	–	–	–	–	2,872
Issue of shares as consideration for acquisition of Merry Sky	3,993	3,195	–	–	–	–	–	–	7,188
Shares issued pursuant to share subscription, net of share issuance expenses	5,634	13,962	–	–	–	–	–	–	19,596
Share capital reduction	(92,489)	–	–	92,489	–	–	–	–	–
Issue of warrant, net of warrant issuance expenses	869	177	–	–	(142)	–	–	–	904
Issue of shares upon placing, net of share insurance expenses	2,182	24,585	–	–	–	–	–	–	26,767
Equity settled share-based transactions	–	–	–	–	–	10,399	–	–	10,399
	14,607	61,210	56,774	92,489	–	20,103	(1,390)	(217,621)	26,172

29. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

Authorised and issued share capital

	Notes	2010 Number of shares	2010 Nominal value HK$'000	2009 Number of shares	2009 Nominal value HK$'000
Authorised:					
Ordinary shares of HK$0.01 (2009: HK$0.1) each		**20,000,000**	**200,000**	2,000,000	200,000

	Notes	2010 Number of shares '000	2010 Nominal value of ordinary shares HK$'000	2010 Nominal value of ordinary shares RMB'000	2009 Number of shares '000	2009 Nominal value of ordinary shares HK$'000	2009 Nominal value of ordinary shares RMB'000
Ordinary share, issued and fully paid		**915,000**	**91,500**	**92,623**	720,000	72,000	75,438
Shares issued upon the exercise of warrants	(i)	**–**	**–**	**–**	44,000	4,400	3,878
Shares issued pursuant to share subscription	(ii)	**49,592**	**4,959**	**4,354**	144,000	14,400	12,690
Shares issued under share option scheme	(iii)	**–**	**–**	**–**	7,000	700	617
Shares issued as consideration for acquisition of subsidiaries	(iv)	**65,909**	**6,591**	**5,788**	–	–	–
Effect of capital reduction	(v)	**–**	**(92,745)**	**(92,489)**	–	–	–
Shares issued upon the exercise of warrants	(i)	**100,000**	**1,000**	**869**	–	–	–
Shares issued pursuant to share subscription	(ii)	**146,590**	**1,465**	**1,280**	–	–	–
Shares issued upon placing	(vi)	**255,000**	**2,550**	**2,182**	–	–	–
Total issued and fully paid ordinary shares of HK$0.01 each		**1,532,091**	**15,320**	**14,607**	915,000	91,500	92,623

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

29. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(i) Warrants issued pursuant to warrant subscription

On 4 August 2009, the Company entered into a warrant subscription agreement with an independent third party (the "Holder") in relation to the subscription of 144,000,000 warrants at an issue price of HK$0.003 per warrant. Pursuant to this warrant subscription agreement, the Holder will subscribe 144,000,000 warrants, which entitle the Holder thereof to subscribe for up to 144,000,000 new ordinary shares of HK$0.10 each in the Company at an initial exercise price of HK$0.104 per ordinary share for a period of two years commencing from the date of issue of the warrants. Each of the warrants carries the right to subscribe for one new ordinary share of the Company. Net proceeds of approximately HK$232,000 (equivalent to approximately RMB204,000), net of warrant issuance expenses of approximately HK$200,000 (equivalent to approximately RMB176,000), was raised for cash as its additional working capital and was credited to the warrants reserve. The exercise price has been adjusted to HK$0.0104 per ordinary shares upon the completion of Capital Reduction on 2 July 2010.

In December 2009, 44,000,000 warrants were exercised to subscribe for 44,000,000 new ordinary shares in the Company at a consideration of HK$4,576,000 (equivalent to approximately RMB4,033,000) of which HK$4,400,000 (equivalent to approximately RMB3,878,000) was credited to share capital and the balance of HK$176,000 (equivalent to approximately RMB155,000) was credited to share premium account. RMB62,000 has been transferred from the warrants reserve to share premium account.

In July 2010, 100,000,000 warrants were exercised to subscribe for 100,000,000 new ordinary shares in the Company at a consideration of approximately HK$1,040,000 (equivalent to approximately RMB904,000) of which HK$1,000,000 (equivalent to approximately RMB869,000) was credited to share capital and the balance of HK$40,000 (equivalent to approximately RMB35,000) was credit to share premium account. RMB142,000 has been transferred from the warrant reserve to share premium account.

(ii) Shares issued pursuant to share subscription

On 10 November 2009, the Company entered into six conditional agreements (the "Subscription Agreements") with the six independent third parties (the "Subscribers"). Pursuant to the Subscription Agreements, the Company agreed to allot and issue, and the Subscribers agreed to subscribe for an aggregate of 144,000,000 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.159 per ordinary share. The net proceeds of approximately HK$21,445,000 (equivalent to approximately RMB18,899,000), net of share issuance expenses of approximately HK$1,451,000 (equivalent to approximately RMB1,279,000), was raised for cash as funds for future development of the Group when investment opportunities arise and its additional working capital.

29. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(ii) Shares issued pursuant to share subscription (Continued)

On 5 March 2010, the Company entered into the four conditional subscription agreements with the four independent third parties (the "Four Subscribers"), Pursuant to which the subscription agreements, the Company agreed to allot and issue, and the Four Subscribers agreed to subscribe for an aggregate of 196,181,818 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.168 per ordinary share.

On 30 March 2010, the condition of the subscription stated in the two subscription agreements has been fulfilled, and the subscription of aggregate of 49,591,809 new ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.168 per ordinary share was completed in accordance with their respective term and conditions. The net proceeds of approximately HK$8,331,000 (approximately equivalent to RMB7,314,000), net of share issuance expenses, was raised for the general corporate and working capital requirements of the Group and as funds for future development of the Company when investment opportunities arise.

On 18 August 2010, the condition of the subscription stated in the subscription agreements has been fulfilled, and the subscription of aggregate of 146,590,009 new ordinary shares of HK$0.01 each in the Company at a subscription price of HK$0.10 per ordinary share was completed in accordance with their respective terms and conditions. The net proceeds of approximately HK$14,057,000 (approximately equivalent to RMB12,282,000), net of share issuance expense, was raised for the general corporate and working capital requirements of the Group and as funds for future development of the Company when investment opportunities arise

(iii) Shares issued under share option scheme

During the year ended 31 December 2009, options were exercised to subscribe for 7,000,000 new ordinary shares in the Company at a consideration of HK$1,477,000 (equivalent to approximately RMB1,302,000) of which HK$700,000 (equivalent to approximately RMB617,000) was credited to share capital and the balance of HK$777,000 (equivalent to approximately RMB685,000) was credited to share premium account. RMB1,045,000 has been transferred from share-based compensation reserve to the share premium account in accordance with policy set out in note 3(m)(ii).

29. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(iv) Shares issued as consideration for acquisition of subsidiaries

On 14 December 2009, the Company entered into a sale and purchase agreement ("Jin Hao Acquisitions") with an independent third party (the "Jin Hao Vendor") whereby the Company conditionally agreed to acquire the entire issued share capital of Jin Hao Limited ("Jin Hao"), a private company incorporated with limited liability in the BVI on 25 November 2009, from the Jin Hao Vendor at a total consideration of HK$9,000,000, which will be satisfied upon completion (i) as to HK$4,500,000 in cash and (ii) as to HK$4,500,000 by allotment and issue of 20,454,546 new ordinary shares of HK$0.10 each in the issued capital of the Company. The acquisition was completed on 5 February 2010.

On 14 December 2009, the Company entered into a sale and purchase agreement ("Merry Sky Acquisition") with an independent third party (the "Merry Sky Vendor") whereby the Company conditionally agreed to acquire the entire issued share capital of Merry Sky Limited ("Merry Sky"), a private company incorporated with limited liability in the BVI on 2 January 2009, from the Merry Sky Vendor at a total consideration of HK$10,000,000, which will be satisfied upon completion by allotment and issue of 45,454,545 new ordinary shares of HK$0.10 each in the issued capital of the Company. The acquisition was completed on 8 February 2010.

(v) Effect of capital reduction

Pursuant to a special resolution passed on 20 January 2010, the issued share capital of the Company will be reduced by cancelling paid up capital to the extent of HK$0.09 on each of the shares in issue such that the nominal value of all the issued shares be reduced (the "Issued Capital Reduction") from HK$0.10 each to HK$0.01 each; and the nominal value of all unissued shares in the authorised share capital of the Company be reduced (the "Authorised Capital Reduction") from HK$0.10 each to HK$0.01 each. Upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company will be HK$200,000,000, divided into 20,000,000,000 ordinary shares of HK$0.01 each. The Capital Reduction was completed on 2 July 2010.

29. CAPITAL AND RESERVES *(Continued)*

(b) Share capital *(Continued)*

(vi) Shares issued upon placing as follow

On 18 November 2010, the Company entered into the placing agreement with placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent and on a best effort basis, 255,000,000 new shares to independent investors at the placing price of HK$0.126 per placing share. The net proceeds from the placing of approximately HK$31,250,000 (equivalent to approximately RMB26,767,000) was raised for general working capital requirements of the Group. The placing was completed on 26 November 2010.

(c) Nature and purpose

(i) Share premium

Share premium represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital reserve

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate amount of the issued share capital of subsidiaries acquired by the Company through an exchange of shares.

(iii) Warrants reserve

Warrants issued by the Company that settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

The fair value of warrants on the date of issue is recognised in warrants reserve. The warrants reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrants reserve will be released to the retained profits.

(iv) Share-based compensation reserve

Share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and other service providers of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(o)(ii).

29. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose *(Continued)*

(v) General reserve fund

According to the relevant laws and regulations in the PRC, Shanxi Everpride, as a wholly foreign-owned enterprise established in the PRC, is required to appropriate at least 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the generally accepted accounting principles and financial regulations applicable to the PRC enterprises, to a general reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

The general reserve fund can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Shanxi Everpride resolved not to appropriate its after-tax profit to the general reserve fund for each of the years ended 31 December 2010 and 2009. It is because the general reserve fund of Shanxi Everpride has reached 50% of its registered capital and no further appropriation is necessary unless there is an increase in the amount of its registered capital.

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(s).

(vii) Contributed surplus

The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (Revision) of the Cayman Islands, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital account.

(viii) Capital reduction reserve

The capital reduction reserve account has arisen from the Capital Reduction completed on 2 July 2010.

(d) Distributability of reserves

In the opinion of the Company's directors, as at 31 December 2010 and 2009, the Company has no reserves available for distribution to its shareholders.

29. CAPITAL AND RESERVES *(Continued)*

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of (i) debt, which includes loans and other borrowings; (ii) cash and bank balance; and (iii) capital, which comprises all components of equity.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to balance its overall capital structure, the Group may issue new shares, raise new debt financing or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 5 July 2001, the Company had adopted a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible employees for their contribution to the Group. Eligible employees of the Old Scheme include all executive directors, executives, officers and full-time employees of the Group. The Old Scheme was effective for a period of 10 years commencing from 5 July 2001, after which period no further options will be granted but the provisions of the Old Scheme shall in all other respects remain in full force and effect.

On 24 September 2009, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted. As a result, the Company can no longer grant any further share options under the Old Scheme. In addition, no share option was granted prior to the termination of the Old Scheme.

The Company has the New Scheme which was adopted on 24 September 2009 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants of the Group, including the employees and directors of any company in the Group, to take up options at HK$10 consideration to subscribe for shares of the Company. The New Scheme remains in force for a period of 10 years from adoption of such scheme and expires on 23 September 2019. The exercise period of the share options granted is determined by the directors of the Company but not later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
2010			
Option granted to directors of the Company:			
On 22 January 2010	86,760,000	Immediately from the date of grant	10 years
Total share options granted	86,760,000		
2009			
Options granted to the directors of the Company:			
On 11 November 2009	14,000,000	Immediately from the date of grant	10 years
Options granted to the employees of the Company:			
On 11 November 2009	6,000,000	Immediately from the date of grant	10 years
Options granted to services providers			
On 11 November 2009	52,000,000	Immediately from the date of grant	10 years
Total share options granted	72,000,000		

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) the number and weighted average exercise prices of share options are as follows:

	2010 Weighted average exercise price	**2010** Number of options '000	2009 Weighted average exercise price	2009 Number of options '000
Outstanding at the beginning of the year	**HK$0.211**	**65,000,000**	–	–
Granted during the year	**HK$0.2488**	**86,760,000**	HK$0.211	72,000,000
Exercised during the year	**–**	**–**	HK$0.211	(7,000,000)
Outstanding at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.211	65,000,000
Exercisable at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.211	65,000,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.2326 (2009: HK$0.211) and a weighted average remaining contractual life of 9 years (2009: 9.8 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions *(Continued)*

	2010	2009
Fair value at measurement date	**HK$0.1365**	HK$0.1694
Share price	**HK$0.2488**	HK$0.211
Exercise price	**HK$0.2488**	HK$0.211
Expected volatility (expressed as weighted average volatility used in the modeling under binomial model)	**118.795%**	113.231%
Option life (expressed as weighted average life used in The modeling under binomial model)	**4 years**	5 years
Expected dividends	**0.000%**	0.000%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	**1.51%**	1.683%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of share options), adjusted for an expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

31. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

As stipulated by the rules and regulations in the PRC, Shanxi Everpride, a subsidiary established in the PRC, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 17% of the basic salary of its employees.

31. RETIREMENT BENEFITS SCHEME *(Continued)*

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2010, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB3,075,000 (2009: RMB1,070,000) which was included in the staff costs.

32. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed else where in the consolidated financial statements, the Group has the following material related party transactions:

(a) For the year ended 31 December 2010, 西安金皓資產管理有限公司, a wholly owned subsidiary incorporated in PRC, purchased a motor vehicle of approximately RMB580,000 from Mr. Hu Yangxiong's wife. Mr. Hu Yangxiong is an executive director of the Company.

(b) **Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2010 **RMB'000**	2009 RMB'000
Short-term employees benefit	**2,254**	2,722
Retirement scheme contributions	**25**	37
Share-based payments	**10,399**	2,687
Total	**12,678**	5,446

Total remuneration is included in "staff cost" (see note 7(b)).

33. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Capital expenditure authorised and contracted for in respect of acquisition of:		
– acquisition of subsidiary	**152,442**	16,728
– property, plant and equipment	**28,038**	–
	180,480	16,728

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**1,607**	369
After 1 year but within 5 years	**3,141**	612
	4,748	981

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Financial risk factors

The Group's financial assets include cash and bank balance, trade and other receivables and financial assets at fair value through profit or loss. The Group's financial liabilities include loans and borrowings and trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate, currency, equity price and fair values of financial instrument risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(i) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group requests the customers to pay sales deposits to reduce the credit risk exposures.

The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for approximately 89% (2009: approximately 72%) of the trade receivable and the largest trade receivable was approximately RMB2,972,000 (2009: RMB1,859,000) and was approximately 50% (2009: approximately 46%) of the Group's total trade receivables. The Group seeks to minimize its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

The Group's concentration of credit risk by geographical location is mainly in the PRC.

In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2010 and 2009, the Group has no significant concentration of credit risk in relation to deposit with bank.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 23.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and other lenders to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

The Group

	2010				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	59,853	59,853	59,853	–	–
Loans and borrowings	33,968	33,968	33,968	–	–
	93,821	93,821	93,821	–	–

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk (Continued)

	2009				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	80,769	80,769	80,769	–	–
Loans and borrowings	47,545	47,545	47,545	–	–
	128,314	128,314	128,314	–	–

The Company

	2010				
	Carrying Amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**
Trade and other payables	**1,874**	**1,874**	**1,874**	**–**	**–**

	2009				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Trade and other payables	9,051	9,051	9,051	–	–

The total contractual undiscounted cash flows of the Company's non-derivate financial liabilities are the same as their carrying amounts as their remaining maturities are within one year.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Interest rate risk

The Group's interest rate risk arises primarily from loans and borrowings. The interest rates and maturity information of the Group's loans and borrowings are disclosed in notes 27.

The Group policy is to manage its interest rate risk to ensure there are no undue exposure to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, any future variations in interest rate would not have a significant impact on the results of the Group.

Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately RMB340,000 (2009: approximately RMB475,000). Other components of equity would not be affected (2009: nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in the respective interest rates over the period until the next annual reporting period.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

As most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong dollars and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant and the Group does not employ any financial instruments for hedging purposes.

(v) Equity price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with difference risk and return profiles. The Group exposed to equity price risk arising from changes in the Group's financial assets at fair value through profit or loss.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date. If equity price had been 5% higher/lower, the Group's net profit/(loss) for the year would increase/decrease by approximately RMB129,000. This is mainly due to the changes in financial assets at fair value through profit or loss.

(vi) Fair values of financial instrument

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

i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Financial risk factors *(Continued)*

(vi) Fair values of financial instrument (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 Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2010.

- 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 assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
At 31 December 2010				
Financial assets at fair value through profit or loss	2,583	–	–	2,583
Available-for-sale financial assets	–	–	–	–

Reconciliation of Level 3 fair value measurements of financial assets

	Unquoted equity investments 2010 RMB'000
1 January	–
Addition	1,200
Impairment loss recognised	(1,200)
31 December	–

35. ACQUISITION OF SUBSIDIARIES

On 14 December 2009, the Company entered into the Jin Hao Acquisitions with Jin Hao Vendor whereby the Company conditionally agreed to acquire the entire issued share capital of Jin Hao, a private company incorporated with limited liability in the BVI on 25 November 2009, from the Jin Hao Vendor at a total consideration of HK$9,000,000, which was satisfied upon completion (i) as to HK$4,500,000 in cash and (ii) as to HK$4,500,000 by allotment and issue of 20,454,546 new ordinary shares of HK$0.10 each in the issued capital of the Company. The acquisition was completed on 5 February 2010.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Acquiree's carrying amount before combination and fair value
	RMB'000
Net assets acquired	–
Goodwill (note 18)	6,821
Total consideration	6,821
Satisfied by:	
Cash	3,949
Issue of Company's shares	2,872
	6,821
Net cash outflow arising on:	
Cash consideration paid	3,949
Cash and bank balance acquired	–
	3,949

Included in the loss for the year is RMB6,035,000 attributable to Jin Hao and its subsidiaries ("Jin Hao Group"). No revenue for the year was generated by Jin Hao Group.

Had these business combinations been effected at 1 January 2010, the revenue of the Group would have been RMB Nil, and the loss for the year would have been RMB6,035,000. The pro-forma financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010 nor is it intended to be a projection of future results.

36. ACQUISITION OF INTANGIBLE ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 14 December 2009, the Company entered into the Merry Sky Acquisition with Merry Sky Vendor whereby the Company conditionally agreed to acquire the entire issued share capital of Merry Sky, a private company incorporated with limited liability in the BVI on 2 January 2009, from the Merry Sky Vendor at a total consideration of HK$10,000,000, was satisfied upon completion by allotment and issue of 45,454,545 new ordinary shares of HK$0.10 each in the issued capital of the Company. The acquisition was completed on 8 February 2010.

Merry Sky has not carried out any significant business transactions on acquisition date. In the opinion of the directors, the acquisition did not constitute an acquisition of business in substance. The acquisition of the intangible assets was then considered as acquisition of assets through acquisition of a subsidiary. Therefore, the acquisition was not accounted for as a business combination in accordance with the requirements of IFRS 3 *Business Combination.*

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	RMB'000
Trade and other payables	(5)
Intangible assets	7,193
Net assets acquired	7,188
Total consideration satisfied by issued Company's shares	7,188
Net cash outflow arising on:	
Cash consideration paid	–
Cash and bank balance acquired	–
	–

During the year ended 31 December 2010, no turnover and loss was contributed by Merry Sky as it has not carried out any significant business transaction since the acquisition.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade debtors, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(d) Write-down of inventories

If the costs of inventories fall below their net realisable values, write-down of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the write-down of inventories could be higher than estimated.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Provision for income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Impairment for goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group 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. At 31 December 2010, the carrying amount of goodwill of approximately RMB6,821,000. Details of the recoverable amount calculation are disclosed in note 18.

(g) Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 16.

(h) Impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

38. NON-CASH TRANSACTIONS

In current year, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

(i) The Group disposed leasehold properties and plant and equipment of approximately RMB92,331,000 and RMB650,000 respectively and the consideration for the disposal of approximately RMB95,400,000, which was used to repay loans and payables owed to certain creditors.

(ii) The Company acquired the entire issued share capital of Jin Hao with partial consideration of approximately RMB2,872,000 by allotment and issue of 20,454,546 new ordinary share of HK$0.10 each in the issued capital of the Company.

(iii) The Company acquired the entire issued share of Merry Sky at a total consideration of approximately RMB7,188,000, which satisfied by allotment and issue of 45,454,545 new ordinary shares of HK$0.10 each in the issued capital of the Company.

39. EVENTS AFTER THE REPORTING PERIOD

(i) On 24 December 2010, Premium Stars Investments Limited ("Premium Stars"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with vendor and vendor's guarantor pursuant to which Premium Stars conditionally agreed to acquire from the vendor the 100% issued share capital of Smart Courage Limited at a total consideration of HK$180,000,000.

The agreement has been satisfied and completion took place on 27 May 2011. Upon completion, the Company has issued the promissory notes and the convertible bonds to the vendor as part of the consideration for the acquisition and paid the balance of the consideration by way of cash. Details please referred to the announcement dated 30 May 2011.

	RMB'000
Intangible assets	361
Other receivables	8
Cash and bank balances	1
Other payables	(422)
	(52)
Goodwill on acquisition	150,082
Total consideration paid	150,030
Net cash outflow arising on acquisition:	
Cash consideration paid	25,407
Cash and bank balances acquired	(1)
	25,406

Note:

(a) The fair value to be assigned to the acquiree's identifiable assets, liabilities, contingent liabilities and the cost of the combination can be determined only provisionally, any adjustments to those provisional values will be required upon completion of the acquisition. The directors considered that the carrying amount of consideration of promissory notes and convertible bonds approximate to their fair values. The directors also considered that the amount of turnover and profit after tax contributed by the subsidiary to be acquired can only be determined upon completion of the acquisition.

39. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

Note: *(Continued)*

(b) The consideration of HK$180,000,000 will be satisfied as to (i) HK$30,000,000 (equivalent to approximately RMB25,407,000) in cash (as to HK$20,000,000 as a refundable deposit upon signing of the agreement and the remaining HK$10,000,000 payable upon completion of acquisition in accordance with the agreement); (ii) HK$30,000,000 by the issue of promissory notes upon completion; and (iii) the remaining balance of HK$120,000,000 by the issue of convertible bonds in the principal amount of the HK$120,000,000 at the initial conversion price of HK$0.10 per conversion share to the vendor or its nominee(s) upon completion.

(ii) On 29 March 2011, the Company entered into placing agreement with the placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, to not less than six independent placees for up to 300,000,000 new share at a price of HK$0.055 per placing share, for and on behalf of the Company. The net proceeds of approximately HK$15,900,000 (equivalent to approximately of RMB13,466,000) from the placing will be used for general working capital of the Group. The placing was completed on 21 April 2011.

(iii) On 18 May 2011, the Company and Ms. Wu Rong (the "Purchaser"), an independent third party, entered into the sale and purchase agreement in relation to the disposal of (i) the entire issued share capital of Top Beauty Holdings Limited ("Top Beauty"), the entire issued share capital of which is directly held by the Company, (ii) the interest-free loans amounting to approximately HK$25,700 (equivalent to approximately of RMB22,000) owing by Top Beauty to the Company as at the date of the agreement and (iii) the interest-free loans amounting to approximately HK$6,011,930 (equivalent to approximately of RMB5,092,000) owing by Good Wisdom Holdings Limited to the Company as at the date of agreement to the Purchaser, at a consideration of HK$6,000,000 (equivalent to approximately of RMB5,801,000) payable by the Purchaser to the Company.

(iv) The Company published an announcement dated 8 April 2011 relating to the annual results of the Group for the year ended 31 December 2010 (the "Results Announcement"), to fulfill the requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. The Results Announcement contained qualified audit opinion from the Company's former auditors (the "Former Auditors") due to the reason that they had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Since after the resignation of the Former Auditors on 14 June 2011, the Company has gathered from its associated companies and subsidiaries additional relevant information and documents. The Company subsequently revised the Results Announcement on 15 September 2011.

40. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to conform with current year's presentation.

41. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 15 September 2011.