HAO WEN HOLDINGS LIMITED
皓文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8019

2011
Annual Report

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. in particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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This annual report, for which the directors (the "Directors") of Hao Wen Holdings 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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CORPORATE INFORMATION

Directors

Executive Directors

Zhao Borui *(Vice Chairman)*
Hu Yangxiong
Lee Cheuk Yue, Ryan
Chow Yik
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

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 268l
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Unit 701, Tai Yau Building
181 Johnston Road
Wanchai
Hong Kong

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
Cricket Square
Hutchins Drive
P.O. Box 268l
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 609
Dr. Roy's Drive
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
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 (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 2011.

Turnover for the year was approximately RMB121,706,000, which represented an increase of approximately 36% as compared with that of 2010. The Group recorded a loss of approximately RMB47,543,000 for the year due mainly to increase in finance costs and amortization of intangible assets.

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.

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, 31 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

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 biodegradable containers 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.

The biodegradable containers and disposable industrial packaging products are traded under the brandname "Earth Buddy". The materials used to produce such products are mainly agricultural waste, such as sugar cane dregs (a side-product of sugar refinery), straw, wheat stalk, reed and bamboo. Our biodegradable products are 100% biodegradable to avoid environmental and aesthetic pollution. in this sense, our biodegradable products are truly environmental friendly as they are produced by recycling waste materials into useful products, unlike some of our competitors, who make their disposable containers of papers, which results in major global deforestation, or edible materials, such as corn starch.

Financial Review

During the year under review, the Group recorded an audited consolidated turnover of approximately RMB121,706,000 (2010: RMB89,226,000), which represented an increase of approximately 36% as compared with that of 2010. The increase in turnover was mainly due to the introduction of a new business in trading of biodegradable food containers and industrial packaging products in Hong Kong, which represented approximately 33% of the consolidated turnover of the Group for the financial year 2011.

The Group's audited consolidated loss for the year was approximately RMB47,543,000 (2010: RMB38,034,000). The increase in loss was mainly due to an increase in the finance costs and amortisation of intangible assets.

The selling and distribution expenses increased by 8% to RMB46,524,000 as compared to last year. It was mainly due to the increase in advertising and promotion expenses.

The general and administrative expenses increased by 8% to RMB46,517,000 as compared to last year. It was mainly due to the increase in amortization of intangible assets.

Net finance expenses of approximately RMB14,660,000 were mainly arisen from interest charges on bank and other borrowings repayable within five years, interest on convertible notes and interest on promissory notes.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

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 RMB80,504,000 (2010: RMB84,729,000), representing approximately 66% of the consolidated turnover of the Group during the year. The Group recorded approximately RMB37,038 (2010: RMB3,708,000) from the sales of "Puli Capsule" representing approximately 0.03% of the consolidated turnover of the Group during the year. The Group recorded approximately RMB40,336,000 (2010: Nil) from the sales of biodegradable containers and industrial packaging products representing approximately 33% of the consolidated turnover of the Group during the year. Also, the Group recorded approximately RMB829,000 (2010: RMB789,000) from the distribution income of cosmetics exclusive rights 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.

Furthermore, the Company will review regularly and closely monitor the market trend of the industry and the performance of our biodegradable products.

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 2011, the balance of cash and cash equivalents amounted to approximately RMB12,010,000 (2010: RMB27,692,000). During the year, the Group has carried out funds raising exercises through issue of new shares. Net proceeds from these funds raising activities amount approximately HK$15,968,000. These capital resources provide a substantial support for the Group to business diversification and general working capital of the Company.

Total bank and other borrowings of the Group as at 31 December 2011 are approximately RMB55,000,000 (2010: RMB33,968,000) 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 2011 is 99% (2010: 71%), which is calculated by dividing total liabilities of RMB219,091,000 over total assets of the Group of RMB221,430,000.

As at 31 December 2011, the net current liabilities of the Group is RMB60,343,000 (2010: net current assets of RMB8,946,000) and the current ratio of the Group was approximately 0.4 times (2010: 1.1 times).

Capital Raising

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.

Charges on Group Assets

At 31 December 2011 and 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 bank and other 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 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.

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.

Revised Results Announcement

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Significant Investments

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

Capital Structure

On 21 April 2011, 300,000,000 new shares at a price of HK$0.055 per placing share were issued pursuant to a placing agreement entered into by the Company with a placing agent on 29 March 2011.

Convertible Bonds

On 27 May 2011, upon completion of acquisition of Smart Courage Limited, the Company issued convertible bonds with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,000,000). Details of the convertible bonds are set out to in note 27 to the accompanying consolidated financial statements.

Employee Information

Currently, the Group has about 130 full-time employees (2010: 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 RMB13,733,000 for the year under review (2010: RMB18,547,000).

Contingent Liabilities

As at 31 December 2011, the Group had no contingent liabilities (2010: Nil).

Business Outlook and Prospects

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

Going forward, the Board will make every effort to improve the operation results of the Group and continue to look for other pharmaceutical manufacturers for possible synergetic alliances through means including but not limited to merger and acquisition, so as to strengthen the profitability and minimise the performance risk of the Group.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Directors and Senior Management

Executive Directors

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. Hu Yangxiong, aged 51, 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 Stock Exchange of Hong Kong Limited during the period from March 2006 to March 2010.

Mr. Lee Cheuk Yue, Ryan, aged 29, 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 30, obtained the degree of Bachelor of Engineering, majoring in Electronic and Communication Engineering, from theCity 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 Distribution (HK) Ltd.

Mr. Leung King Fai, aged 40, 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., 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 41, 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES *(CONTINUED)*

Ms. Yeung Mo Sheung, Ann, aged 47, 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 REPORT

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 financial year ended 31 December 2011, except for deviations from code provisions A.2.1, A.4.1 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 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 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.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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 to the extent practicable.

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 2011 is as follows:

Number of meetings	18
Executive directors:	
Mr. Zhao Borui	7
Mr. Hu Yangxiong	16
Mr. Chung Chi Mang (Note 1)	13
Mr. Liu Yinxiao (Note 2)	0
Mr. Chow Yik (Note 3)	17
Mr. Leung King Fai	18
Mr. Lee Cheuk Yue, Ryan	18
Independent non-executive director:	
Mr. Lam Chung Fai (Note 4)	1
Mr. Fu Wing Kwok, Ewing (Note 5)	0
Mr. Lam Kai Tai (Note 6)	8
Mr. Wong Ting Kon (Note 7)	8
Mr. Lam Ka Wai, Graham (Note 8)	1
Ms. Yeung Mo Sheung, Ann (Note 9)	5
Average attendance rate	48%

Notes:

1. Mr. Chung Chi Mang retired as an executive Director on 3 November 2011

2. Mr. Liu Yinxiao resigned as an executive Director on 11 January 2011

3. Mr. Chow Yik was appointed as an executive Director on 11 January 2011

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

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

6. Mr. Lam Kai Tai was appointed as an independent non-executive Director on 21 April 2011

7. Mr. Wong Ting Kon was appointed as an independent non-executive Director on 21 April 2011

8. Mr. Lam Ka Wai, Graham resigned as an independent non-executive Director on 17 May 2011

9. Ms. Yeung Mo Sheung, Ann was appointed as an independent non-executive Director on 11 January 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 2011, Mr. Zhou Borui is the Vice Chairman and Mr. Hu Yangxiong is the Chief Executive Officer. Mr. Zhao Borui has assumed the duties of the Chairman while the Board is identifying suitable candidate to fill the vacancy of the Chairman.

A.3 Board composition

Currently, the Board comprises eight Directors: Five 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. 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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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. None of the independent non-executive Directors of the Company has served the Company for 9 years or more.

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 9 to 10 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 2011. 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 articles of association 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 2 meetings during the year.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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 the collective decision of the Board, taking into consideration the recommendation of the Nomination Committee and the relevant 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. Further appointment of independent non-executive Director who has serves more than 9 years should be subject to a separate relationship to be approved by shareholders and the Board would consider and set the reason why such independent non-executive Director continues to be independent and should be elected.

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. Hu Yangxiong and Mr. Zhao Borui will retire by rotation at the forthcoming annual general meeting of the Company to be held on 4 May 2012 and being eligible have offered themselves for re-election at the 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. Newly appointed Directors will also receive an introduction on the Company's operation and business. 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 2011.

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 2011, the Remuneration Committee has met 2 times which were 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 2011 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 both of the website of the Company and the website of Stock Exchange.

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 2011, 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.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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 2010, 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 breaches 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.

The financial statements for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. The Audit Committee has recommended to the board of directors that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

For the year ended 31 December 2011, the audit service fees paid or payable by the Company amounted to approximately HK$1,200,000.

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 34 of this annual report.

C.2 Internal controls

The Board is entrusted with the 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.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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. KL CPA has produced a first draft of its report and the Company is reviewing the same and taking appropriate steps to adopt the measures proposed by KL CPA. As at the date of this report, the review is still on-going, 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 2011, the Audit Committee met on five (5) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2011 is as follows:

Number of meetings	5
Mr. Lam Chung Fai (Note 1)	1
Mr. Fu Wing Kwok, Ewing (Note 2)	0
Mr. Yeung Mo Sheung, Ann (Note 3)	5
Mr. Lam Kai Tai (Note 4)	5
Mr. Wong Ting Kon (Note 5)	5
Mr. Lam Ka Wai, Graham (Note 6)	1
Average attendance rate	57%

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. Ms. Yeung Mo Sheung, Ann was appointed as a independent non- executive Director on 11 January 2011

4. Mr. Lam Kai Tai was appointed as independent non-executive Director on 21 April 2011

5. Mr. Wong Ting Kon was appointed as an independent non-executive Director on 21 April 2011

6. Mr. Lam Ka Wai, Graham resigned as an independent non-executive Director on 17 May 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 and half yearly report.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

The following is a summary of the work performed by the Audit Committee during 2011:

— 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 2010;

— reviewing the interim report and the interim results announcement for the six months ended 30 June 2011;

— reviewing the quarterly reports and the quarterly results announcement for the three months ended 31 March 2011 and 30 September 2011, respectively;

— meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2010 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 2011 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 2011, 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 extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the meeting.

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 the extraordinary general meeting held in 2011.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Participation of individual Directors at Annual General Meeting in 2011 is as follows:

Number of meetings	1
Executive Directors:	
Mr. Zhao Borui	0
Mr. Hu Yangxiong	0
Mr. Chung Chi Mang (Note 1)	0
Mr. Liu Yinxiao (Note 2)	0
Mr. Chow Yik (Note 3)	1
Mr. Leung King Fai	1
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Chung Fai (Note 4)	0
Mr. Fu Wing Kwok, Ewing (Note 5)	0
Mr. Lam Kai Tai (Note 6)	0
Mr. Wong Ting Kon (Note 7)	0
Mr. Lam Ka Wai, Graham (Note 8)	0
Ms. Yeung Mo Sheung, Ann (Note 9)	0
Average attendance rate	15%

Notes:

1. Mr. Chung Chi Mang retired as an executive Director on 3 November 2011

2. Mr. Liu Yinxiao resigned as an executive Director on 11 January 2011

3. Mr. Chow Yik was appointed as an executive Director on 11 January 2011

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

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

6. Mr. Lam Kai Tai was appointed as an independent non-executive Director on 21 April 2011

7. Mr. Wong Ting Kon was appointed as an independent non-executive Director on 21 April 2011

8. Mr. Lam Ka Wai, Graham resigned as an independent non-executive Director on 17 May 2011

9. Ms. Yeung Mo Sheung, Ann was appointed as an independent non-executive Director on 11 January 2011

Notices of general meetings were sent to shareholders at least 20 clear business days before the annual general meeting and at least 10 clear business days for all other general meetings. The Company's auditors have also attended the Annual General Meeting in 2011.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Participation of individual Directors at Extraordinary General Meetings in 2011 is as follows:

Number of meetings	2
Executive Directors:	
Mr. Zhao Borui	0
Mr. Hu Yangxiong	2
Mr. Chung Chi Mang (Note 1)	0
Mr. Liu Yinxiao (Note 2)	0
Mr. Chow Yik (Note 3)	0
Mr. Leung King Fai	2
Mr. Lee Cheuk Yue, Ryan	0
Independent non-executive Directors:	
Mr. Lam Chung Fai (Note 4)	0
Mr. Fu Wing Kwok, Ewing (Note 5)	0
Mr. Lam Kai Tai (Note 6)	0
Mr. Wong Ting Kon (Note 7)	0
Mr. Lam Ka Wai, Graham (Note 8)	0
Ms. Yeung Mo Sheung, Ann (Note 9)	0
Average attendance rate	15%

Notes:

1. Mr. Chung Chi Mang retired as an executive Director on 3 November 2011
2. Mr. Liu Yinxiao resigned as an executive Director on 11 January 2011
3. Mr. Chow Yik was appointed as an executive Director on 11 January 2011
4. Mr. Lam Chung Fai resigned as an independent non-executive Director on 1 June 2011
5. Mr. Fu Wing Kwok, Ewing resigned as an independent non-executive Director on 11 January 2011
6. Mr. Lam Kai Tai was appointed as an independent non-executive Director on 21 April 2011
7. Mr. Wong Ting Kon was appointed as an independent non-executive Director on 21 April 2011
8. Mr. Lam Ka Wai, Graham resigned as an independent non-executive Director on 17 May 2011
9. Ms. Yeung Mo Sheung, Ann was appointed as an independent non-executive Director on 11 January 2011

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 the extraordinary general meeting held in 2011, 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.

REPORT OF THE 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 2011.

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 19 to the financial statements.

Segment Information

Segment information of the Group for the year ended 31 December 2011 is set out in Note 5 to the accompanying consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2011, the five largest customers accounted for approximately 84% of the Group's total turnover. The five largest suppliers accounted for approximately 79% of the Group's total purchases. in addition, the largest customer accounted for approximately 51% of the Group's total turnover while the largest supplier accounted for approximately 60% 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

Results and Dividends

Details of the Group's results for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 36 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				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**121,706**	89,226	83,468	79,226	67,466
(Loss)/profit before taxation	**(47,292)**	(37,703)	(29,303)	(15,023)	7,352
Taxation	**(251)**	(331)	(2,754)	(4,028)	(3,130)
Net(loss)/profit from ordinary activities attributable to shareholders	**(47,543)**	(38,034)	(32,057)	(19,051)	4,222

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value:					
Non-current assets	**177,927**	28,873	107,565	71,647	78,669
Current assets	**43,503**	102,896	33,607	17,582	59,561
Current liabilities	**(103,846)**	(93,950)	(132,269)	(83,432)	(112,352)
Net current (liabilities)/assets	**(60,343)**	8,946	(98,662)	(65,850)	(52,791)
Non-current liabilities	**(115,245)**	—	—	—	—
Net assets	**2,339**	37,819	8,903	5,797	25,878

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 30 and 31 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 30 to the financial statements.

Distributable Reserves

As at 31 December 2011 and 2010, the Company has no reserves available for distribution to its shareholders.

Property, Plant and Equipment

Details of movements in investment 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.

Bank and Other Borrowings

Particulars of loans and borrowings of the Group as at 31 December 2011 are set out in Note 26 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 2011.

REPORT OF THE DIRECTORS *(CONTINUED)*

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	retired on 3 November 2011
Mr. Hu Yangxiong	
Mr. Zhao Borui	
Mr. Liu Yinxiao	resigned on 11 January 2011
Mr. Leung King Fai	
Mr. Lee Cheuk Yue, Ryan	
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. Lam Ka Wai, Graham	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. Hu Yangxiong and Zhao Borui 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 9 to 10 of the annual report.

Directors' Service Contracts

All 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.

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 2011, 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. Hu Yangxiong	Beneficial Owner and interest of a controlled corporation	85,700,000 (L)	4.68%
Mr. Leung King Fai	Beneficial Owner	660,000 (L)	0.04%

Note:

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

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

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 2011, 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	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)	10.59%
Beckon Investments Limited	Beneficial owner	193,975,000 (L)	10.59%
Mr. Liu Yinxiao	Beneficial owner	110,000,000 (L)	6.00%

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 his wholly owned company, namely Beckon Investments Limited for the purpose of the SFO.

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

At 31 December 2011, the directors, employees, consultants, advisors and other service providers of the company had the following interests in options to subscribe for shares of the company 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 Yanxiong (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 2010 to 10 November 2019	HK$0.211
Leung King Fai (Director)	4,000,000	11 November 2009	11 November 2010 to 10 November 2019	HK$0.211
Consultants, Advisers, Service Providers, Employees and Others	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 31 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 2011, 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

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.

Major Events Subsequent to the Year

Shanxi Everpride Pharmaceutical Company Ltd. (Shanxi Everpride), a wholly-owned subsidiary of the Company, entered into a co-operative agreement with Beijing Jia Hong Yu on 8 February 2002 with immediate effect for a term of 10 years. On 5 February 2012, Shanxi Everpride and Beijing Jia Hong Yu entered into a supplementary agreement to the co-operative agreement. Details are set out in the Company's announcement dated 6 February 2012.

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 5 times in 2011. 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.

REPORT OF THE DIRECTORS *(CONTINUED)*

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.

The Group's financial statements for the year were audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhao Borui
Vice Chairman

Hong Kong, 31 March 2012

INDEPENDENT AUDITORS' REPORT

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 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 36 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011, 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.

Material Uncertainty Concerning Going Concern Basis of Accounting

Without qualifying our opinion, we draw attention to note 2(b) to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB47,543,000 during the year ended 31 December 2011 and, as of that date, the Group's consolidated current liabilities exceeded its consolidated current assets by approximately RMB60,343,000. These conditions, along with other matters as set forth in note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	4	**121,706**	89,226
Cost of sales		**(60,477)**	(26,945)
Gross profit		**61,229**	62,281
Other gains and losses	6	**(1,175)**	(10,041)
Selling and distribution expenses		**(46,524)**	(43,251)
General and administrative expenses		**(46,517)**	(43,246)
Loss from operations		**(32,987)**	(34,257)
Share of results of associates	18	**(801)**	(752)
Gain on disposal of subsidiaries		**1,156**	—
Finance costs	7(a)	**(14,660)**	(2,694)
Loss before taxation	7	**(47,292)**	(37,703)
Income tax expenses	8(a)	**(251)**	(331)
Loss for the year		**(47,543)**	(38,034)
Other comprehensive loss, net of income tax			
Exchange differences on translating foreign operations		**(1,322)**	(776)
Total comprehensive loss for the year		**(48,865)**	(38,810)
Loss for the year attributable to owners of the Company		**(47,543)**	(38,034)
Total comprehensive loss for the year attributable to owners of the Company		**(48,865)**	(38,810)
Loss per share	13		
Basic (cents)		**(2.74)**	(3.33)
Diluted (cents)		**(2.74)**	(3.33)

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

STATEMENTS OF FINANCIAL POSITION

At 31 December 2011

	Notes	The Group 2011 RMB'000	The Group 2010 RMB'000	The Company 2011 RMB'000	The Company 2010 RMB'000
Non-current assets					
Plant and equipments	14	**51,346**	12,252	**80**	118
Investment properties	15	**1,670**	1,670	**—**	—
Intangible assets	16	**118,081**	3,472	**—**	—
Goodwill	17	**6,821**	6,821	**—**	—
Interests in associates	18	**9**	4,658	**—**	—
Investments in subsidiaries	19	**—**	—	**14,677**	14,351
		177,927	28,873	**14,757**	14,469
Current assets					
Inventories	21	**7,930**	4,729	**—**	—
Trade and other receivables, prepayments and deposits	22	**16,683**	67,892	**83,148**	12,921
Financial assets at fair value through profit or loss	23	**6,880**	2,583	**—**	—
Cash and bank balances	24	**12,010**	27,692	**384**	656
		43,503	102,896	**83,532**	13,577
Current liabilities					
Trade and other payables	25	**48,846**	59,853	**3,899**	1,874
Bank and other borrowings	26	**55,000**	33,968	**—**	—
Current taxation liabilities	29	**—**	129	**—**	—
		103,846	93,950	**3,899**	1,874
Net current (liabilities)/assets		**(60,343)**	8,946	**79,633**	11,703
Total assets less current liabilities		**117,584**	37,819	**94,390**	26,172
Non-current liabilities					
Convertible notes	27	**92,499**	—	**92,499**	—
Promissory notes	28	**22,746**	—	**—**	—
		115,245	—	**92,499**	—
Net assets		**2,339**	37,819	**1,891**	26,172
Capital and reserves attributable to owners of the Company					
Share capital	30	**17,122**	14,607	**17,122**	14,607
Reserves		**(14,783)**	23,212	**(15,231)**	11,565
Total equity		**2,339**	37,819	**1,891**	26,172

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2012 and are signed on its behalf by:

Hu Yangxiong
Director

Leung King Fai
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Capital reduction reserve RMB'000	Warrants reserve RMB'000	Share-based compensation reserve RMB'000	General fund reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
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										
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	(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 warrants, 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
At 1 January 2011	14,607	61,210	7,195	92,489	—	20,103	9,025	(1,464)	(165,346)	37,819
Loss for the year	—	—	—	—	—	—	—	—	(47,543)	(47,543)
Other comprehensive loss for the year										
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	(1,322)	—	(1,322)
Total comprehensive loss for the year	—	—	—	—	—	—	—	(1,322)	(47,543)	(48,865)
Issue of shares upon placing, net of transaction costs	2,515	10,870	—	—	—	—	—	—	—	13,385
At 31 December 2011	17,122	72,080	7,195	92,489	—	20,103	9,025	(2,786)	(212,889)	2,339

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Operating activities			
Loss before taxation		**(47,292)**	(37,703)
Adjustments for:			
Amortisation of land lease premium for property held for own use		**—**	207
Depreciation	7(c)	**4,287**	5,400
Fair value loss of investment properties	6	**—**	80
Amortisation of intangible assets	7(c)	**17,398**	1,199
Impairment loss on intangible assets	6	**—**	2,522
Impairment loss on interests in associates	6	**—**	2,990
Impairment loss on available-for-sale investments	6	**—**	1,200
Impairment loss on trade and other receivables	6	**—**	4,349
Share of loss of associates		**801**	752
Fair value (gain)/loss on financial assets at fair value through profit or loss	6	**(1,803)**	1,717
Fair value loss on convertible notes		**3,928**	—
Interest expense	7(a)	**14,672**	2,699
Interest income	7(a)	**(12)**	(5)
Gain on disposal of leasehold properties and plant and equipment		**—**	(2,204)
Gain on disposal of subsidiaries		**(1,156)**	—
Equity-settled share-based payment expenses	7(c)	**—**	10,399
Operating loss before working capital changes		**(9,177)**	(6,398)
(Increase)/decrease in inventories		**(3,201)**	512
Decrease/(increase) in trade and other receivables		**10,266**	(62,515)
(Decrease)/increase in trade and other payables		**(11,429)**	40,034
Cash used in operations		**(13,541)**	(28,367)
Purchase of financial assets at fair value through profit or loss		**(56,467)**	(4,272)
Proceeds of disposal financial assets at fair value through profit or loss		**53,973**	—
Tax paid		**(380)**	(4,157)
Net cash used in operating activities		**(16,415)**	(36,796)
Cash flows from investing activities			
Purchase of plant and equipment		**(2,614)**	(3,516)
Purchase of investment properties		**—**	(1,750)
Purchase of available-for-sale investments		**—**	(1,200)
Net cash outflow from acquisition of associates		**—**	(8,400)
Net cash outflow from acquisition of subsidiaries		**(25,004)**	(3,949)
Net cash inflow from disposal of subsidiaries		**4,892**	—
Interest received		**12**	5
Net cash used in investing activities		**(22,714)**	(18,810)

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from financing activities			
Repayment of bank and other borrowings		(32,768)	(6,112)
Proceeds from new bank and other borrowings		53,800	27,000
Net proceeds from shares issued upon the exercise of warrants, net of shares issuance expense	30(b)(v)	—	904
Net proceeds from shares issued pursuant to share subscription, net of share issuance expenses	30(b)(ii)	—	19,596
Net proceeds from shares issued upon placing, net of share issuance expense	30(b)(vi)	13,385	26,767
Interest paid		(10,135)	(2,699)
Net cash generated from financing activities		24,282	65,456
Net (decrease)/increase in cash and cash equivalents		(14,847)	9,850
Cash and cash equivalents at the beginning of year		27,692	18,640
Effect of exchange rate changes on the balance of cash held in foreign currencies		(835)	(798)
Cash and cash equivalents at the end of the year	24	12,010	27,692

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 are 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 disclosed in the corporate information of the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in the manufacture and sales of medicines, sale of biodegradable food containers and disposable industrial packaging for consumer products.

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(f) 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) Going concern basis

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group notwithstanding that:

— the Group had consolidated loss attributable to owners of the Company of approximately RMB47,543,000 for the year ended 31 December 2011;

— the Group had consolidated net current liabilities of approximately RMB60,343,000 as at 31 December 2011; and

— the Group had outstanding banks and other borrowings of approximately RMB55,000,000 (note 26), which an aggregate of approximately RMB55,000,000 is due for repayment within the next twelve months after 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

(b) Going concern basis *(Continued)*

The directors adopted the going concern basis in the preparation of the financial statements and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(1) Financial supports

Beckon Investments Limited, one of the major shareholders of the Company has confirmed to provide continuing financial support to the Group to enable it to continue as a going concern and to settle liabilities as and when they fall due.

(2) Attainment of profitable and positive cash flow operations

The Group is taking measures to tighten cost controls over various costs and expenses and to seek new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors, in light of the various measures/arrangements implemented after the end of reporting period, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the financial statements.

(c) 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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(d) 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.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

(e) Use of estimates and judgements *(Continued)*

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 38.

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

The following new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements. The application of these new and revised IFRSs has had no material impact on the Group's financial performance and positions for the current and prior years, but may affect the accounting for future transactions or arrangement.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change (see the consolidated statement of changes in equity).

IAS 24 Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Group is not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. Specifically, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard whilst such entities were not treated as related parties of the Group under the previous Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

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

Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by other Standards. in addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ("market-based measure).

Amendments to IAS 32 Classification of Rights Issue

The amendments address the classification of certain rights issue denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement

The Interpretation addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

Except for the amendments to IAS 1 described earlier, the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments *(Continued)*

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

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Date for First-time Adopters[1]
IFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
IFRS 9	Financial instruments[6]
IFRS 10	Consolidated Financial Statements[4]
IFRS 11	Joint Arrangements[4]
IFRS 12	Disclosure of Interest in Other Entities[4]
IFRS 13	Fair Value Measurement[4]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
IAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[2]
IAS 19 (2011)	Employee Benefits[4]
IAS 27 (2011)	Separate Financial Statements[4]
IAS 28 (2011)	Investments in Associates and Joint Ventures[4]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments *(Continued)*

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

The directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation — Special Purpose Entities. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments *(Continued)*

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities — Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. in contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. in general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in IFRS 10). In addition, the application of IFRS 11 may result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using proportionate consolidation. Under IFRS 11, those jointly controlled entities will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. Basis of Preparation *(Continued)*

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments *(Continued)*

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to IAS 12 in future reporting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The directors of the Company are in the process to assess the impact on the Group's consolidated financial statements in relation to the application of these new and revised standards, amendments and interpretations.

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

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(a) Basis of Consolidation *(Continued)*

(iv) Business combinations

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

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

(i) deferred tax assets or liabilities, and assets or liabilities 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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

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

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

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

3. Significant Accounting Policies *(Continued)*

(a) Basis of Consolidation *(Continued)*

(iv) Business combinations *(Continued)*

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

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.

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.

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 at the acquisition date that, if known, would have affected the amounts recognised at that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

(b) Investments in Subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(d) Goodwill

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

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) Plant and Equipment

(i) Recognition and measurement

Items of 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 plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

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

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised 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 plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(e) Plant and Equipment *(Continued)*

(iii) Depreciation

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

— 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.

(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.

(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.

3. Significant Accounting Policies *(Continued)*

(f) Leased Assets *(Continued)*

(ii) Operating lease charges *(Continued)*

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

(iii) Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(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.

(h) Intangible Assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(h) Intangible Assets *(Continued)*

Internally-generated intangible assets — research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) the intention to complete the intangible asset and use or sell it;

(iii) the ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(h) Intangible Assets *(Continued)*

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 with finite useful lives 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).

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. When 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cashgenerating 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.

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.

When 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(j) Financial Instruments *(Continued)*

Financial assets at fair value through profit or loss *(Continued)*

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.

Loan 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, prepayments and deposits, cash and bank balances) 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(j) Financial Instruments *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(j) Financial Instruments *(Continued)*

Impairment of financial assets *(Continued)*

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 AFS 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.

Equity instruments

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.

Financial liabilities

Financial liabilities including trade and other payables, bank and other borrowings, convertible notes, and promissory notes 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.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value though profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to convertible notes reserves. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to convertible notes reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(j) Financial instruments *(Continued)*

Derecognition *(Continued)*

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

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

(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

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

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 revenue 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.

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 sharebased 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. Significant Accounting Policies *(Continued)*

(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.

(s) Translation of Foreign Currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

3. Significant Accounting Policies *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

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.

	2011	2010
	RMB'000	RMB'000
Sale of pharmaceutical products	**80,541**	88,437
Sale of biodegradable products	**40,336**	—
Distribution of skin care products	**829**	789
	121,706	89,226

5. Segment Reporting

Information reported to the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided. The segmentations are based on the information about the operation of the Group that management uses to make decision and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

The Group's reportable and operating segment under IFRS 8 are as follows:

(a) manufacturing and sale of pharmaceutical products;

(b) sale of biodegradable food containers and disposable industrial packaging for consumer products; and

(c) distribution of skin care products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

5. Segment Reporting *(Continued)*

Segment Revenues and Results

	Pharmaceutical products		Biodegradable products		Skin care products		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover								
External sales	**80,541**	88,437	**40,336**	—	**829**	789	**121,706**	89,226
Result								
Segment result	**(9,350)**	(2,882)	**(12,718)**	—	**129**	781	**(21,939)**	(2,101)
Unallocated corporate expenses							**(11,048)**	(21,095)
Impairment loss on available-for-sale investments							**—**	(1,200)
Impairment loss on intangible assets	**—**	—	**—**	—	**—**	(2,522)	**—**	(2,522)
Impairment loss recognised in respect of trade receivables	**—**	(4,349)	**—**	—	**—**	—	**—**	(4,349)
Impairment loss on interests in associates							**—**	(2,990)
Loss from operations							**(32,987)**	(34,257)
Share of results of associates							**(801)**	(752)
Gain on disposal of subsidiaries							**1,156**	—
Finance costs							**(14,660)**	(2,694)
Loss before taxation							**(47,292)**	(37,703)
Income tax expenses							**(251)**	(331)
Loss for the year							**(47,543)**	(38,034)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2010: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, impairment loss on available-for-sale investments, impairment loss on intangible assets, impairment loss recognised in respect of trade receivables, impairment loss on interests in associates, share of results of associates, gain on disposal of subsidiaries, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

5. Segment Reporting *(Continued)*

Segment Assets and Liabilities

	Pharmaceutical products		Biodegradable products		Skin care products		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Segment assets	39,044	57,154	137,994	—	3,510	589	180,548	57,743
Unallocated corporate assets							40,882	74,026
							221,430	131,769
Liabilities								
Segment liabilities	82,892	89,494	5,482	—	—	—	88,374	89,494
Unallocated corporate liabilities							130,717	4,456
							219,091	93,950

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than interests in associates, investment properties, financial assets at fair value through profit or loss and other corporate assets.

All liabilities are allocated to operating segments other than convertible notes, promissory notes and corporate liabilities.

Other Segment Information

The following is an analysis of the Group's other segment information:

	Pharmaceutical products		Biodegradable products		Skin care products		Unallocated		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure										
— acquisition of subsidiaries	—	—	—	—	—	—	—	6,821	—	6,821
— intangibles assets	—	—	134,338	—	—	7,193	—	—	134,338	7,193
— investment properties	—	—	—	—	—	—	—	1,750	—	1,750
— others	42,114	1,329	—	—	—	—	1,285	3,937	43,399	5,266
Depreciation and amortisation	3,521	5,350	16,704	—	694	1,199	766	257	21,685	6,806
Impairment loss on:										
— trade receivables	—	4,349	—	—	—	—	—	—	—	4,349
— intangible assets	—	—	—	—	—	2,522	—	—	—	2,522
— available-for-sale investments	—	—	—	—	—	—	—	1,200	—	1,200
— interest in associates	—	—	—	—	—	—	—	2,990	—	2,990

The Group's revenue from its major products were disclosed in note 4 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

5. Segment Reporting *(Continued)*

Geographical Information

The Group operates in two principal geographical areas, the PRC (excluding Hong Kong) and Hong Kong. The Group's revenue from the external customers by location of operations and information about its non-current assets are detailed below:

	Revenue		Non-current assets	
	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000	**At 31 December 2011 RMB'000**	At 31 December 2010 RMB'000
The PRC	**80,541**	88,437	**53,025**	17,038
Hong Kong	**41,165**	789	**124,902**	11,835
	121,706	89,226	**177,927**	28,873

Information about major customers

Included in revenue arising from sale of pharmaceutical products of approximately RMB80,541,000 (2010: RMB88,437,000) of approximately RMB61,779,000 (2010: RMB64,329,000), which arose from one (2010: one) single external customers. No other single customers contributed 10% or more to the Group's revenue for both 2011 and 2010.

6. Other Gains and Losses

	2011 RMB'000	2010 RMB'000
Sample income	**612**	211
Gain on disposal of leasehold properties and plant and equipments	**—**	2,204
Sundry income	**338**	402
Impairment loss recognised in respect of trade receivables	**—**	(4,349)
Impairment loss on available-for-sale investments	**—**	(1,200)
Impairment loss on intangible assets	**—**	(2,522)
Impairment loss on interests in associates	**—**	(2,990)
Fair value loss on investment properties	**—**	(80)
Fair value gain/(loss) on financial assets at fair value through profit or loss	**1,803**	(1,717)
Fair value loss on convertible notes	**(3,928)**	—
Total	**(1,175)**	(10,041)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

7. Loss Before Taxation

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

(a) Net finance costs/(income)

	2011	2010
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	**7,609**	2,699
Interest on convertible notes	**5,605**	—
Interest on promissory notes	**1,458**	—
Bank interest income	**(12)**	(5)
Net financial costs recognised in consolidated statement of comprehensive income	**14,660**	2,694

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

	2011	2010
	RMB'000	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 balances)	**12**	5
Total interest expenses for financial liabilities that are not designated as at fair value through profit or loss	**14,672**	2,699

(b) Staff costs (including director's emoluments)

	2011	2010
	RMB'000	RMB'000
Contributions to defined contribution plans	**1,623**	3,075
Salaries, wages and other benefits	**12,110**	15,472
Total staff costs	**13,733**	18,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

7. Loss Before Taxation *(Continued)*

(c) Other items

	2011 **RMB'000**	2010 RMB'000
Amortisation of intangible assets	**17,398**	1,199
Amortisation of land lease premium	**—**	207
Depreciation	**4,287**	5,400
Operating lease charges in respect of property rentals:		
Minimum lease payments	**3,910**	492
Advertising and promotion expenses	**40,002**	33,793
Auditors' remuneration		
— audit services	**995**	1,500
Cost of inventories sold	**60,477**	26,945
Equity-settled share-based payment expenses	**—**	10,399

8. Income Tax in the Consolidated Statement of Comprehensive Income

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

	2011 **RMB'000**	2010 RMB'000
Current tax		
PRC enterprise income tax for the year	**251**	331

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2011 and 2010.

(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 2011 (2010: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

8. Income Tax in the Consolidated Statement of Comprehensive Income *(Continued)*

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

	2011		2010	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(47,292)**		(37,703)	
Notional tax on loss before taxation calculation at the PRC enterprise income tax rate of 25% (2010: 25%)	**(11,823)**	**(25.0)**	(9,426)	(25.0)
Tax effect non-deductible expenses	**8,306**	**17.6**	6,873	18.2
Tax effect of unused tax losses not recognised	**1,263**	**2.7**	1,220	3.2
Tax effect of different tax rates in other jurisdictions	**2,505**	**5.3**	1,664	4.5
Income tax expenses for the year	**251**	**0.6**	331	0.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

9. Directors' Remuneration

Details of remuneration of the directors' remuneration of the Company for the year, disclosed pursuant to Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2011 Sub-total RMB'000	Share-based payments (note) RMB'000	2011 Total RMB'000
Executive directors:						
Chung Chi Mang (resigned on 03/11/2011)	—	—	—	—	—	—
Hu Yangxiong	—	569	10	579	—	579
Zhao Borui	—	99	—	99	—	99
Liu Yinxiao (appointed on 28/09/2010 and resigned on 11/01/2011)	—	3	—	3	—	3
Leung King Fai	—	377	10	387	—	387
Lee Cheuk Yue, Ryan	—	162	—	162	—	162
Chow Yik (appointed on 11/01/2011)	—	180	6	186	—	186
Independent non-executive directors:						
Fu Wing Kwok, Ewing (resigned on 11/01/2011)	2	—	—	2	—	2
Lam Chung Fai (resigned on 01/06/2011)	39	—	—	39	—	39
Lam Ka Wai, Graham (appointed on 17/11/2010 and resigned on 17/05/2011)	36	—	—	36	—	36
Yeung Mo Sheung, Ann (appointed on 11/01/2011)	124	—	—	124	—	124
Lam Kai Tai (appointed on 21/04/2011)	75	—	—	75	—	75
Wong Ting Kon (appointed on 21/04/2011)	69	—	—	69	—	69
	345	1,390	26	1,761	—	1,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

9. Directors' Remuneration *(Continued)*

	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 01/06/2011)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

9. Directors' Remuneration *(Continued)*

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 31.

For the years ended 31 December 2011 and 2010, 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 2011 and 2010.

10. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2010: five) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other one individual (2010: Nil) are as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and other emoluments	**127**	—
Retirement scheme contributions	**6**	—
	133	—

The emoluments of the other one individual (2010: Nil) with the highest emoluments are within the following bands:

	Number of individuals	
	2011	2010
Nil – HK$1,000,000	**1**	—

For the years ended 31 December 2011 and 2010, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

11. Loss Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of RMB37,894,000 (2010: RMB49,753,000) 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 2011 (2010: Nil).

13. Loss per Share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately RMB47,543,000 (2010: approximately RMB38,034,000) and weighted average number of approximately 1,737,570,000 (2010: approximately 1,141,771,000) ordinary share.

(b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2011 and 2010 were the same as basic loss per share as the effects of the Company's convertible notes, share options and warrants were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

14. Plant and Equipments

Movements in plant and equipments are as follows:

	The Group					The Company
	Machinery and equipment	Furniture and office equipment	Motor vehicles	Construction-in-progress	Total	Furniture and office equipment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
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 and 1 January 2011	11,110	7,197	11,851	—	30,158	163
Exchange adjustments	—	(28)	(72)	—	(100)	(4)
Additions	536	2,078	—	40,785	43,399	—
Disposals	—	—	(220)	—	(220)	—
At 31 December 2011	**11,646**	**9,247**	**11,559**	**40,785**	**73,237**	**159**
Accumulated depreciation and impairment						
At January 2010	6,024	3,748	8,204	—	17,976	11
Exchange adjustments	—	(4)	—	—	(4)	(2)
Charge for the year	1,363	694	955	—	3,012	36
Written back on disposals	—	(152)	(2,926)	—	(3,078)	—
At 31 December 2010 and 1 January 2011	7,387	4,286	6,233	—	17,906	45
Exchange adjustments	—	(11)	(71)	—	(82)	(3)
Charge for the year	1,435	1,059	1,793	—	4,287	37
Written back on disposals	—	—	(220)	—	(220)	—
At 31 December 2011	**8,822**	**5,334**	**7,735**	**—**	**21,891**	**79**
Carrying amounts						
At 31 December 2011	**2,824**	**3,913**	**3,824**	**40,785**	**51,346**	**80**
At 31 December 2010	3,723	2,911	5,618	—	12,252	118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

15. Investment Properties

	The Group	
	2011	2010
	RMB'000	RMB'000
Completed investment properties at fair value:		
At 1 January	**1,670**	—
Additions	**—**	1,750
Fair value loss	**—**	(80)
At 31 December	**1,670**	1,670

(a) Valuation of investment properties

The investment properties amounted of approximately RMB1,670,000 (2010: RMB1,670,000) of the Group were stated at fair value as at 31 December 2011. The fair value were arrived based on the valuations carried out by an independent firm of qualified professional valuers, 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:

	2011	2010
	RMB'000	RMB'000
In the PRC		
— medium-term leases	**1,670**	1,670

(c) At 31 December 2011, the Group had been applying for the premises permit in respect of the investment properties owned by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

16. Intangible Assets

Movements in intangible assets of the Group are as follows:

	Intellectual properties RMB'000 (note c)	Exclusive rights RMB'000 (note a)	Exclusive skin care products distribution license RMB'000 (note b)	Total RMB'000
Cost				
At 1 January 2010	—	5,000	—	5,000
Acquisition	—	—	7,193	7,193
At 31 December 2010 and 1 January 2011	—	5,000	7,193	12,193
Acquisition (note 36)	134,338	—	—	134,338
Exchange adjustments	(2,563)	—	—	(2,563)
At 31 December 2011	**131,775**	**5,000**	**7,193**	**143,968**
Accumulated amortisation and impairment				
At 1 January 2010	—	5,000	—	5,000
Amortisation expenses	—	—	1,199	1,199
Impairment loss	—	—	2,522	2,522
At 31 December 2010 and 1 January 2011	—	5,000	3,721	8,721
Amortisation expenses	16,704	—	694	17,398
Exchange adjustments	(232)	—	—	(232)
At 31 December 2011	**16,472**	**5,000**	**4,415**	**25,887**
Carrying amounts				
At 31 December 2011	**115,303**	**—**	**2,778**	**118,081**
At 31 December 2010	—	—	3,472	3,472

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

16. 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 ended 31 December 2010, 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 was 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 during the year ended 31 December 2010. The impairment loss was included in "other gains and losses" in the consolidated statement of comprehensive income.

The recoverable amount of exclusive skin care products distribution license for the year ended 31 December 2010 was 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% was applied on the value-in-use calculations.

(c) The intellectual property's useful life used in the calculation of amortisation is 8 years.

(d) The amortisation charge for the year is included in "general and administrative expenses" in the consolidated statement of comprehensive income.

17. Goodwill

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost:		
At 1 January	**6,821**	—
Acquisition of subsidiaries	**—**	6,821
At 31 December	**6,821**	6,821
Accumulated impairment loss:		
At 1 January	**—**	—
Impairment loss	**—**	—
At 31 December	**—**	—
Carrying amounts:		
At 31 December	**6,821**	6,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

17. Goodwill *(Continued)*

Particular 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:

	2011	2010
	RMB'000	RMB'000
Health spa business	**6,821**	6,821

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 16.78% 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 30 September 2011 and 2012 (pursuant to a supplementary agreement entered by two parties) 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 2011, the Zhuhai Subsidiary has not commenced business and in the process to obtain the necessary licenses and approvals from the government in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

18. Interests in Associates

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost of investments in associates	**8,400**	8,400
Share of post-acquisition profit	**(1,553)**	(752)
	6,847	7,648
Disposed during the year	**(3,848)**	—
Impairment loss recognised (note)	**(2,990)**	(2,990)
At 31 December	**9**	4,658

Note: During the year ended 31 December 2010, 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.

During the year ended 31 December 2011, the Group disposed its 29.41% interest in 中視和陽傳媒科技(北京)有限公司 upon the disposal of subsidiaries (note 37).

At 31 December 2011, 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 hold	Principal activities
江油市元神醫藥科技開發有限公司	Incorporated in PRC	Registered Capital of RMB1,000,000	41%	41%	Research and development on chinese herbal medicine

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

18. Interests in Associates *(Continued)*

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Total assets	**22**	22,010
Total liabilities	**—**	(6,161)
Net assets	**22**	15,849
Group's share of net assets of associates	**9**	4,658
Turnover	**264**	501
Loss for the year	**2,465**	3,341
Group's share of loss of associates (included share of loss of associates disposed during the year ended 31 December 2011)	**801**	752
Group's share of other comprehensive expenses	**—**	—

19. Investments in Subsidiaries

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

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**70,841**	70,515
Less: Impairment loss recognised	**(56,164)**	(56,164)
	14,677	14,351

Note: In prior years, the subsidiaries incurred losses continuously and the directors of the Company carried out a review on the recoverable amounts of the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

19. Investments in Subsidiaries *(Continued)*

The particulars of subsidiaries of the Company at 31 December 2011 were as follows:

Name of company	Place of incorporation/ registration operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power 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%	Manufacturing and sales of medicines
西安金皓資產管理有限公司	PRC	HK$3,000,000	—	100%	Investment holding
Premium Stars Investments Limited	BVI	50,000 ordinary of US$1 each	100%	—	Investment holding
Jin Hao Limited ("Jin Hao")	BVI	100 ordinary of US$1 each	100%	—	Investment holding
Merry Sky Limited ("Merry Sky")	BVI	1 ordinary of US$1 each	100%	—	Cosmetic license holding
Smart Courage Limited	BVI	1 ordinary of US$1 each	—	100%	Investment holding
Earth Buddy (Intellectual property) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	—	100%	Sale of biogradable products
Earth Buddy Environmental Limited	Hong Kong	10,000 ordinary shares of HK$1 each	—	100%	Sale of biogradable products

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

20. Available-for-sale Investments

	The Group	
	2011	2010
	RMB'000	RMB'000
Unlisted equity securities, at fair value	**—**	—

During the year ended 31 December 2010, 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.

21. Inventories

	The Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**3,809**	3,221
Finished goods	**1,384**	760
Consignment goods	**4,537**	2,548
	9,730	6,529
Less: Write-down of inventories	**(1,800)**	(1,800)
	7,930	4,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

22. Trade and Other Receivables, Prepayments and Deposits

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**68,943**	68,405	**—**	—
Less: allowance for doubtful debts (note 22(b))	**(62,419)**	(62,419)	**—**	—
	6,524	5,986	**—**	—
Bills receivables	**—**	1,928	**—**	—
Other receivables	**9,542**	16,681	**383**	520
Rental and other deposits	**615**	35,863	**595**	396
Prepayments	**2**	7,434	**1**	406
Amounts due from subsidiaries*	**—**	—	**82,169**	11,599
	16,683	67,892	**83,148**	12,921

* 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.

Bills receivables will all mature within 180 days.

(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	
	2011	2010
	RMB'000	RMB'000
0 to 30 days	**5,436**	1,765
31 to 60 days	**854**	1,389
61 to 90 days	**234**	1,838
91 to 180 days	**—**	1,170
181 to 365 days	**—**	171
Over 365 days	**62,419**	62,072
	68,943	68,405
Less: allowance for doubtful debts	**(62,419)**	(62,419)
	6,524	5,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

22. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

(a) Ageing analysis *(Continued)*

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 35(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 movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**62,419**	58,070
Impairment loss recognised	**—**	4,349
At 31 December	**62,419**	62,419

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

At 31 December 2011, the Group's trade debtors of approximately RMB62,419,000 (2010: RMB62,419,000) 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	
	2011	2010
	RMB'000	RMB'000
Overdue by:		
Less than 6 months	**—**	176
More than 6 months	**62,419**	62,243
	62,419	62,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

22. Trade and Other Receivables, Prepayments and Deposits *(Continued)*

(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	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**6,524**	4,992
Less than 6 months past due	**—**	994
More than 6 months past due	**—**	—
	—	994
Total	**6,524**	5,986

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 balances 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.

23. Financial Assets at Fair Value Through Profit or Loss

	The Group	
	2011	2010
	RMB'000	RMB'000
Listed investments:		
Equity securities listed in Hong Kong and stated at fair value	**6,880**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

24. Cash and Bank Balances

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand, denominated in				
— Hong Kong dollars and United States dollars	**10,559**	23,730	**384**	656
— Renminbi	**1,451**	3,962	**—**	—
Cash and cash equivalents in statements of financial position and consolidated statement of cash flows	**12,010**	27,692	**384**	656

Cash and bank balances of approximately RMB1,451,000 (2010: RMB3,962,000) 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.

25. Trade and Other Payables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**3,331**	3,952	**—**	—
Accrued expenses and other payables	**40,590**	55,901	**3,585**	1,874
Amount due to subsidiary*	**—**	—	**314**	—
Amount due to directors*	**4,925**	—	**—**	—
	48,846	59,853	**3,899**	1,874

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

25. Trade and Other Payables *(Continued)*

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

	The Group	
	2011	2010
	RMB'000	RMB'000
0 to 30 days	**1,028**	1,506
31 to 60 days	**155**	168
61 to 90 days	**136**	236
91 to 180 days	**46**	245
181 to 365 days	**—**	478
Over 365 days	**1,966**	1,319
	3,331	3,952

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

26. Bank and other Borrowings

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

		The Group	
		2011	2010
	Notes	**RMB'000**	RMB'000
Unsecured interest-bearing bank loan	(a)	**5,000**	—
Unsecured interest-bearing other loans			
— Loan B	(b)	**27,000**	27,000
— Loan C	(c)	**—**	1,208
— Loan D	(d)	**23,000**	—
Secured non-interest-bearing loans			
— Loan E	(e)	**—**	3,000
Unsecured non-interest-bearing loans			
— Loan F	(f)	**—**	2,760
Amounts shown under current liabilities, on demand or within one year		**55,000**	33,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

26. Bank and other Borrowings *(Continued)*

Notes:

(a) The weighted averaged effective interest rate on unsecured interest-bearing bank loan is 10.44% per annum.

(b) During the year ended 31 December 2011, the Group entered into a loan agreement with a financial institution (the "Party B") whereby the Group borrowed a loan of RMB27,000,000 (the "Loan B") from the Party B for the period from 20 September 2011 to 4 July 2012. The Loan B is unsecured an bearing interest 10.89% per annum.

(c) During the year ended 31 December 2009, the Group entered into a loan agreement with an independent third party (the "Party C") whereby the Group borrowed a loan of RMB2,000,000 (the "Loan C"). The Loan C is unsecured and bearing interest at 36% per annum. The Loan C were fully settled and discharged during the year 31 December 2011.

(d) During the year ended 31 December 2011, the Group entered into five loan agreements with independent third parties. The loans were unsecured and bearing interest ranged from 2% to 4% per month.

(e) The loan was interest free, repayable within one year and was secured by (1) a property owned by an independent third party and (2) a person guarantee put up by another independent third party. The loan were fully settled and discharged during the year 31 December 2011.

(f) These loan from three independent third parties were unsecured, non-interest bearing and are repayable on demand. The loan were fully settled and discharged during the year 31 December 2011.

27. Convertible Notes

The Group and the Company

On 27 May 2011, the Company issued 3% coupon convertible notes (the "Convertible Notes") with a principal amount of HK$120,000,000 (equivalent to approximately RMB100,020,000). Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.10 per conversion share. The convertible notes were issued as part of the consideration for acquisition of Smart Courage Limited and its subsidiaries ("Smart Courage Group") (note 36). The maturity date of the Convertible Notes is the date immediately preceding the second anniversary of the date of issue of the Convertible Notes. The effective interest rate of the liability component on initial recognition is 10.913% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

27. Convertible Notes *(Continued)*

The Group and the Company *(Continued)*

The Convertible Notes recognised in the statement of financial position was calculated, as follows:

	RMB'000
Consideration for acquisition of intangible assets through acquisition of subsidiaries (note 36)	86,450
Interest charged calculated at an effective interest rate of 10.913%	5,605
Interest paid	(1,783)
Exchange adjustments	(1,701)
Fair value changes	3,928
At 31 December 2011	92,499

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 10.913% to the liability component. The fair values of the Convertible Notes has been arrived on the basis of a valuation carried out on date of issue and at end of the reporting period by independent professional valuers not connected with the Group. The effective interest rate range from 8.82% to 10.913% per annum.

28. Promissory Notes

The Group

On 27 May 2011, Premium Stars Investment Limited, a wholly owned subsidiary of the Company, issued promissory notes with a principal amount of HK$30,000,000 (equivalent to approximately RMB25,005,000) for acquiring the entire issued share capital of Smart Courage Group (the "Promissory Notes"). The fair value of Promissory Notes was approximately HK$26,959,000 (equivalent to approximately RMB22,470,000) on 27 May 2011. The promissory note bear interest at 5% per annum and are repayable in second anniversary from the date of issue of Promissory Note. The effective interest rate is 10.913%.

28. Promissory Notes *(Continued)*

The Group *(Continued)*

The movement of the carrying amount of the Promissory Notes during the year ended 31 December 2011 is set out below:

	RMB'000
At 1 January 2010, 31 December 2010 and 1 January 2011	—
Consideration for acquisition of intangible assets through acquisition of subsidiaries (note 36)	**22,470**
Interest charged calculated at an effective interest rate of 10.913%	**1,458**
Interest paid	**(743)**
Exchange adjustments	**(439)**
At 31 December 2011	**22,746**

As at 31 December 2011, the fair value of promissory notes was approximately HK$29,395,000 (equivalent to approximately RMB24,033,000).

29. Income Tax in the Consolidated Statement of Financial Position

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Provision for PRC enterprise income tax for the year	—	331
Provisional PRC enterprise income tax paid	—	(202)
	—	129

(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 (2010: Nil). The Group and the Company has tax losses of approximately RMB6,876,000 (2010: RMB5,613,000), 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 (2010: Nil)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. 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 losses RMB'000	Total RMB'000
At 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									
Exchange difference in translating into presentation currency	—	—	—	—	—	—	(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 warrants, 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
At 31 December 2010 and 1 January 2011	14,607	61,210	56,774	92,489	—	20,103	(1,390)	(217,621)	26,172
Loss for the year	—	—	—	—	—	—	—	(37,894)	(37,894)
Other comprehensive income									
Exchange difference in translating into presentation currency	—	—	—	—	—	—	228	—	228
Total comprehensive loss for the year	—	—	—	—	—	—	228	(37,894)	(37,666)
Issue of shares upon placing, net of share insurance expenses	2,515	10,870	—	—	—	—	—	—	13,385
At 31 December 2011	17,122	72,080	56,774	92,489	—	20,103	(1,162)	(255,515)	1,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. Capital and Reserves *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	Notes	2011 Number of shares '000	2011 Nominal value HK$'000	2010 Number of shares '000	2010 Nominal value HK$'000
Authorised:					
Ordinary shares of HK$0.01 each		20,000,000	200,000	20,000,000	200,000

	Notes	2011 Number of shares '000	2011 Nominal value of ordinary shares HK$'000	2011 Nominal value of ordinary shares RMB'000	2010 Number of shares '000	2010 Nominal value of ordinary shares HK$'000	2010 Nominal value of ordinary shares RMB'000
Ordinary share, issued and fully paid		1,532,091	15,320	14,607	915,000	91,500	92,623
Shares issued pursuant to share subscription	(ii)	—	—	—	49,592	4,959	4,354
Shares issued as consideration for acquisition of subsidiaries	(iii)	—	—	—	65,909	6,591	5,788
Effect of capital reduction	(iv)	—	—	—	—	(92,745)	(92,489)
Shares issued upon the exercise of warrants	(v)	—	—	—	100,000	1,000	869
Shares issued pursuant to share subscription	(ii)	—	—	—	146,590	1,465	1,280
Shares issued upon placing	(vi)	300,000	3,000	2,515	255,000	2,550	2,182
		1,832,091	18,320	17,122	1,532,091	15,320	14,607

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. Capital and Reserves *(Continued)*

(b) Share capital *(Continued)*

(ii) Shares issued pursuant to share subscription

On 5 March 2010, the Company entered into four conditional subscription agreements with 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 of 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 of 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 of 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 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.

30. Capital and Reserves *(Continued)*

(b) Share capital *(Continued)*

(iv) Effect of capital reduction

Pursuant to a special resolution passed on 20 January 2010, the issued share capital of the Company was 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 was 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 was increased to HK$200,000,000, divided into 20,000,000,000 ordinary shares of HK$0.01 each. The Issued Capital Reduction was completed on 2 July 2010.

(v) Warrants issued pursuant to warrant subscription

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.

(vi) Shares issued upon placing as follows:

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.

On 29 March 2011, the Company entered into the placing agreement with the placing agent pursuant to which the placing agent agreed to place, on a best effort basis, 300,000,000 new shares to independent investors at the placing price of HK$0.055 per placing share. The net proceeds from the placing of approximately HK$15,900,000 (equivalent to approximately RMB13,385,000) was raised for general working capital of the Group. The placing was completed on 21 April 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. Capital and Reserves *(Continued)*

(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).

(v) General fund reserve

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 fund reserve 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 fund reserve can be utilised to offset the prior years' losses, or be utilised to increase the capital on the condition that the general fund reserve 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 fund reserve for each of the years ended 31 December 2011 and 2010. It is because the general fund reserve 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. Capital and Reserves *(Continued)*

(c) Nature and purpose *(Continued)*

(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 (2000 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 was 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 2011 and 2010, the Company has no reserves available for distribution to its shareholders.

(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 bank and other borrowings; (ii) cash and cash equivalents; 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.

The Group monitors its capital structure on the basis of gearing ratio. The Group's gearing ratio as at 31 December 2011 is 99% (2010: 71%), which is calculated by dividing total liabilities of approximately RMB219,091,000 (2010: RMB93,950,000) over the total assets of approximately RMB221,430,000 (2010: RMB131,769,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

31. 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.

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

	Number of instruments	Vesting conditions	Contractual life of options
2011			
Options 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		
2010			
Options granted to the 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		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

31. Equity Settled Share-based Transactions *(Continued)*

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

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$0.211**	**65,000,000**	HK$0.211	65,000,000
	HK$0.2488	**86,760,000**	—	—
Granted during the year	**—**	**—**	HK$0.2488	86,760,000
Outstanding at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.2326	151,760,000
Exercisable at the end of the year	**HK$0.2326**	**151,760,000**	HK$0.2326	151,760,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.2326 (2010: HK$0.2326) and a weighted average remaining contractual life of 8 years (2010: 9 years).

No options have been granted, exercised or cancelled during the year ended 31 December 2011.

(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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

31. Equity Settled Share-based Transactions *(Continued)*

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

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.

32. 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.

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 2011, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately RMB1,623,000 (2010: RMB3,075,000) which was included in the staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

33. 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:

	2011 RMB'000	2010 RMB'000
Short-term employees benefit	**1,735**	2,254
Retirement scheme contributions	**26**	25
Share-based payments	**—**	10,399
Total	**1,761**	12,678

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

34. Commitments

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011 RMB'000	2010 RMB'000
Capital expenditure authorised and contracted for in respect of acquisition of:		
— acquisition of subsidiary	**—**	152,442
— property, plant and equipment	**28,038**	28,038
	28,038	180,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

34. Commitments *(Continued)*

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**3,499**	1,607	**1,499**	1,607
After 1 year but within 5 years	**2,858**	3,141	**1,359**	3,141
	6,357	4,748	**2,858**	4,748

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.

35. Financial Risk Management and Fair Values

(a) Financial risk factors

The Group's financial assets include cash and cash equivalents, trade and other receivables, prepayments and deposits and financial assets at fair value through profit or loss. The Group's financial liabilities include bank and other and borrowings, trade and other payables, convertible notes and promissory notes.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency 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 91% (2010: approximately 89%) of the trade receivable and the largest trade receivable was approximately RMB4,701,000 (2010: RMB2,972,000) and was approximately 72% (2010: approximately 50%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Credit risk *(Continued)*

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 2011 and 2010, 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 22.

(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

	2011				
	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	48,846	48,846	48,846	—	—
Bank and other borrowings	55,000	55,000	55,000	—	—
Convertible notes	92,499	98,112	2,943	95,169	—
Promissory notes	22,746	24,528	1,226	23,302	—
	219,091	226,486	108,015	118,471	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Liquidity risk *(Continued)*

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	—	—
Bank and other borrowings	33,968	33,968	33,968	—	—
	93,821	93,821	93,821	—	—

The Company

	2011				
	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	**3,899**	**3,899**	**3,899**	**—**	**—**
Convertible notes	**92,499**	**98,112**	**2,943**	**95,169**	**—**
	96,398	**102,011**	**6,842**	**95,169**	**—**

	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	—	—

35. 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 bank and other borrowings, promissory notes and convertible notes. The interest rates and maturity information of the Group's bank and other borrowings, promissory notes and convertible notes are disclosed in notes 26, 28 and 27.

The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed-rate bank and other borrowings should the need arise.

Sensitivity analysis

At 31 December 2011, 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 RMB1,582,000 (2010: approximately RMB340,000). Other components of equity would not be affected (2010: 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.

(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 decrease/increase by approximately RMB344,000 (2010: RMB129,000). This is mainly due to the changes in financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

35. Financial Risk Management and Fair Values *(Continued)*

(a) Financial risk factors *(Continued)*

(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.

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 2011 and 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).

At 31 December 2011	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	6,880	—	—	6,880
Available-for-sale financial assets	—	—	—	—
Financial liabilities				
Convertible notes	—	—	92,499	92,499

35. 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 (Continued)

At 31 December 2010	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
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	
	2011 RMB'000	2010 RMB'000
1 January	**1,200**	—
Addition	**—**	1,200
Impairment loss recognised	**(1,200)**	(1,200)
31 December	**—**	—

For reconciliation of fair value of convertible notes, please refer to note 27.

36. Acquisition of Intangible Assets through Acquisition of Subsidiaries

On 24 December 2010, the Group entered into a sale and purchase agreement ("Smart Courage Acquisitions") with an independent third party (the "Smart Courage Vendor") whereby the Group conditionally agreed to acquire the entire issued share capital of Smart Courage Group, for a total contracted consideration of HK$180,000,000.

The consideration of HK$180,000,000, HK$30,000,000 was satisfied by cash, HK$120,000,000 was satisfied by the issue of the Convertible Notes (note 27) and HK$30,000,000 was satisfied by issuance of Promissory Note (note 28) with fair values of HK$30,000,000 (equivalent to approximately RMB25,005,000), HK$103,719,000 (equivalent to approximately RMB86,450,000) and HK$26,959,000 (equivalent to approximately RMB22,470,000) ("Consideration").

The total consideration of HK$180,000,000 is subject to adjustments based on the net profit of the Smart Courage Group for the year ending 30 September 2012 which is less than HK$12,000,000 ("Reference Profit"), the amount payable by the Premium Stars Investments Limited on redemption of the Promissory Note shall be reduced on a dollar for dollar basis by the amount in which such net profits is less than HK$12,000,000. The acquisition was completed on 27 May 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

36. Acquisition of Intangible Assets through Acquisition of Subsidiaries *(Continued)*

Smart Courage Group 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 subsidiaries. Therefore, the acquisition was not accounted for as a business combination in accordance with the requirement of IFRS 3 Business Combination.

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

	RMB'000
Net assets acquired:	
Intangible assets	134,338
Other receivables	8
Cash and bank balances	1
Other payables	(422)
Total consideration	133,925
Satisfied by:	
Consideration paid in cash	25,005
Fair value of convertible notes	86,450
Fair value of promissory notes	22,470
	133,925
Net cash outflow arising on acquisition:	
Consideration paid in cash	25,005
Cash and bank balance acquired	(1)
	25,004

Note:

(i) The fair value of the promissory notes and convertible bonds issued has been arrived at on the basis of a valuation carried out on the completion date of the acquisition by an independent qualified professional valuer and not connected with the Group.

37. Disposal of Subsidiaries

On 18 May 2011, the Group entered into sale and purchase agreement to disposal of its 100% equity interest in Top Beauty Holdings Limited and its subsidiaries to an independent third party (the "Purchaser") for cash consideration of HK$6,000,000 (equivalent to approximately RMB4,980,000). The disposal was completed on 17 June 2011. Summary of the effects of the disposal is as follows:

	RMB'000
Net liabilities disposed of:	
Interest in associates	3,848
Trade and other receivables	166
Cash and bank balances	88
Amounts due to the Group	(5,011)
Net liabilities disposed of	(909)

Gain on disposal of subsidiaries

	RMB'000
Consideration received and receivable	4,980
Sale loan	(5,011)
Net liabilities disposed of	909
Cumulative exchange difference in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	278
Gain on disposal	1,156

Net cash inflow from disposal of subsidiaries

	RMB'000
Consideration received in cash and cash equivalents	4,980
Less: cash and cash equivalent balances disposed of	(88)
Cash inflow from disposal of subsidiaries	4,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

38. 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 aging 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

38. 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 2011, the carrying amount of goodwill of approximately RMB6,821,000. Details of the recoverable amount calculation are disclosed in note 17.

(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 15.

(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.

39. Non-Cash Transactions

(a) During the year, the Group acquired the entire issued share capital of Smart Courage Group for a total consideration of HK$180,000,000 (equivalent to approximately RMB150,030,000), the consideration was partly satisfied by promissory note of approximately HK$30,000,000 (equivalent to approximately RMB25,005,000) and convertible notes of approximately HK$120,000,000 (equivalent to approximately RMB100,020,000).

(b) During the year ended 31 December 2011, the Group acquired plant and equipment of approximately RMB40,785,000 which were settled by prepayment and deposits paid during the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

40. Events After the Reporting Period

Shanxi Everpride, a wholly-owned subsidiary of the Company, entered into a co-operative agreement with Beijing Jia Hong Yu on 8 February 2002 with immediate effect for a term of 10 years. On 5 February 2012, Shanxi Everpride and Beijing Jia Hong Yu entered into a supplementary agreement to the co-operative agreement. For details, please refer to the Company's announcement dated 6 February 2012.

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 29 March 2012.