China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00512

Annual Report 2008

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr Liu Chengwei *(Chairman)*
Mr Hu Bo *(Deputy Chairman)*
Mr Shao Yan

NON-EXECUTIVE DIRECTOR

Mr Zhang Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Mr Xin Dongsheng

COMPANY SECRETARY

Mr Lau Wing Yuen

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
Mr Lau Wing Yuen

AUDIT COMMITTEE

Ms So Tosi Wan, Winnie *(Chairman)*
Mr Lo Kai, Lawrence
Mr Xin Dongsheng

REMUNERATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Mason Ching & Associates
Li & Partners Solicitors
Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Room 2501A, Hopewell Centre
183 Queen's Road East, Hong Kong

BUSINESS REVIEW

The Group completed the acquisition of Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") and its subsidiaries and the disposal of Bright Strong Profits Limited ("Bright Strong") and its subsidiaries in July 2008. Details of the acquisition of Wuhan Grand and the disposal of Bright Strong are set out in the Company's circular dated 23 June 2008.

Wuhan Grand also completed the acquisition of Wuhan Wuda Hongyuan Company Limited ("Wuda Hongyuan") as its associated company in November 2008. Details of the acquisition of Wuda Hongyuan are set out in the Company's circular dated 13 November 2008.

For the year ended 31 December 2008, the Group's turnover was approximately HK$269,882,000 (2007: HK$49,045,000) which represents an increase of 450% as compared with last year. Gross profit of the Group for the year under review was HK$109,746,000 (2007: HK$22,654,000). The gross margin achieved during the year was about 41% (2007: 46%). The Group reported a consolidated loss attributable to equity holders of the Company of HK$24,233,000 as compared with a loss of HK$52,030,000 for last year. The results for the first half of 2008 mainly represented the results of Bright Strong and its subsidiaries while the second half mainly represented those of Wuhan Grand and its subsidiaries.

Acquisition of Wuhan Grand

Wuhan Grand is one of the largest manufacturers of Analgin in the PRC. Tirofiban, another product of Wuhan Grand, has recorded rapid growth in sales in recent years and it dominates the PRC hospital market as a key anti-platelet drug for the treatment of cardiovascular disease. Two other products, namely Adrenaline Bitartrate and Noradrenaline Bitartrate, were certified by Food and Drug Administration of USA and are exported to the USA market.

The post acquisition turnover and profits after tax from Wuhan Grand were approximately HK$236,585,000 and HK$12,659,000 respectively.

The consideration of the acquisition amounted to HK$200,000,000, which was satisfied as to HK$150,000,000 by the issuance of the promissory note and HK$50,000,000 by the issuance of the convertible bond to the vendor. During the year under review, the coupon and imputed interest expenses related to the convertible bond were approximately HK$1,250,000 and HK$946,000 respectively, while the imputed interest expense related to the promissory note was approximately HK$4,565,000.

The Group recorded a negative goodwill of approximately HK$22,181,000 as a result of the acquisition.

Disposal of Bright Strong

Turnover and loss after tax attributable to Bright Strong and its subsidiaries for the period from 1 January 2008 to the date of disposal were HK$33,297,000 and HK$11,714,000 respectively.

The Group incurred a loss of approximately HK$29,913,000 as a result of the disposal of Bright Strong.

PROSPECTS

Acquisition of Wuhan Grand enables the Group to enter the PRC pharmaceutical market which is expected to provide a constant growth in the coming years. The Group will also leverage on the management expertise of Wuhan Grand to further expand into the PRC market.

Following the disposal of Bright Strong, the Group is able to get rid of a loss making business which made up of most of the losses incurred by the Group in the past years.

The Group aims to become one of the largest pharmaceutical and healthcare manufacturers in the PRC through generic growth and acquisitions.

Financial resources and liquidity

As at 31 December 2008, the Group had current assets of HK$176,661,000 (31 December 2007: HK$83,787,000) and current liabilities of HK$221,631,000 (31 December 2007: HK$159,245,000). The current ratio was 0.80 at 31 December 2008 as compared with 0.53 at 31 December 2007.

The Group's cash and bank balances as at 31 December 2008 amounted to HK$42,501,000 (31 December 2007: HK$67,282,000), of which 1% were denominated in Hong Kong and United States Dollars and 99% in Renminbi.

As at 31 December 2008, the Group had outstanding bank loans of HK$95,454,000 (31 December 2007: HK$92,307,000), all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 6.23% to 7.84% (for the year ended 31 December 2007: 6.44% to 7.34%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK$236,094,000 (31 December 2007: HK$88,650,000). The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of shareholders' equity, was 889% at 31 December 2008 as compared with 994% at 31 December 2007.

As at 31 December 2008, the convertible bond payable was approximately HK$48,296,000 which was made up of as to HK$46,100,000 being the liability portion of the convertible bond and HK$2,196,000 being the interest payable. Other payable for acquisition of subsidiaries (promissory note was subsequently issued on 24 February 2009) was approximately HK$128,191,000 which was made up of as to HK$123,626,000 being the fair value of the promissory note and HK$4,565,000 being the imputed interest payable. The coupon rate for the convertible bond and the promissory note is 5% per annum. The principal and the accrued interest for the convertible bond and the promissory note are repayable on 15 July 2010 and 23 February 2011 respectively.

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

Employees and remuneration policy

As at 31 December 2008, the Group employed about 2,300 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Contingent liabilities

Details of the Group's contingent liabilities at 31 December 2008 are set out in Note 44 to the consolidated financial statements.

Appreciation

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

Liu Chengwei
Chairman

Hong Kong, 16 March 2009

EXECUTIVE DIRECTORS

Mr Liu Chengwei, aged 35, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand"), the principal subsidiary of the Company. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr Liu worked for General Electric Company's PRC subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from the Peking University and a master's degree in Business Administration from the China Europe International Business School.

Mr Hu Bo, aged 24, was appointed executive director of the Company in July 2008. Mr Hu has about 5 years of experience in network project management and hotel management. Mr Hu is currently the Deputy General Manager of a hotel in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from the University of Toronto. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit Investments Limited, the controlling shareholder of the Company.

Mr Shao Yan, aged 46, was appointed executive director of the Company in October 2008. Mr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Mr Shao is responsible for overseeing the entire operations and general management of the Company. Mr Shao has over 20 years of experience in corporate management and venture capital investment. Mr Shao holds a master's degree in Business Administration from Guanghua School of Management of the Peking University and is a PhD candidate of the School of Politics and International Studies of Beijing Normal University.

NON-EXECUTIVE DIRECTOR

Mr Zhang Ji, aged 47, was appointed non-executive director of the Company in November 2008. Mr Zhang has over 16 years of experience in conducting drug discovery research and development in the US pharmaceutical industry. Mr Zhang is currently the R&D General Manager of the Pharmaceutical Industry Division of China Grand. Mr Zhang worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years before joining China Grand in 2008. Mr Zhang holds a bachelor degree in Microbiology and a master's degree in Virology from Wuhan University, and a Doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie, aged 46, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 52, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 20 years of experience in wealth and asset management business. He has been the CEO of BSI-Generali Asia ("BSI") since October 2007 and is responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia of Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Mr Xin Dongsheng, aged 46, was appointed independent non-executive director of the Company in October 2008. Mr Xin has been a director of Beijing Qun Ying Management Consultancy Company Limited, a company established in Beijing, since 2002 and a director of Tibet Qi Zheng Tibet Medicine Company Limited, a company established in Tibet, since 2007. He has over 20 years of experience in marketing, product development, business development, strategic research and consultancy in pharmaceutical business in Xian, Zhuhai and Beijing. He holds an EMBA degree from the China Europe International Business School, a master's degree in Pharmacy and a bachelor degree in Medicine from the Xian Medical University.

SENIOR MANAGEMENT

Mr Lau Wing Yuen, aged 43, is the Chief Financial Officer of the Company. Mr Lau joined the Company in April 2005 and is responsible for finance, tax, accounting and company secretarial matters. Mr Lau holds a bachelor degree with major in Economics and Management Studies from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he worked for an international accounting firm and several listed companies in Hong Kong. He has over 20 years of experience in auditing, secretarial, accounting and corporate finance.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2008, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with the exception of Code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The posts of chairman and chief executive officer were filled in July and October 2008 respectively.

CORPORATE GOVERNANCE REPORT

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 23 of the Listing Rules as follows:

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

Currently, the Board is composed of 3 executive directors – Mr Liu Chengwei, Mr Hu Bo and Mr Shao Yan, 1 non-executive director – Mr Zhang Ji and 3 independent non-executive directors – Ms So Tosi Wan, Winnie, Mr Lo Kai, Lawrence and Mr Xin Dongsheng. Mr Liu Chengwei is the Chairman and Mr Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

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

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

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

AUDIT COMMITTEE

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

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

The Audit Committee held two meetings during the year ended 31 December 2008 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The Audit Committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in 2006 with written terms of reference. Currently, the Remuneration Committee is chaired by Mr Liu Chengwei with two independent non-executive directors namely, Ms So Tosi Wan, Winnie and Mr Lo Kai, Lawrence as members.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and reviewing specific remuneration package of all directors and senior management including any compensation payable for loss or termination of their office and appointment. The Remuneration Committee met twice during the year to review the remuneration policy for all directors and senior management.

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2008 are set out in Note 17 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has not established a nomination committee. The Board is responsible for selecting suitable candidates to act as directors based on their qualification, experience and potential contribution to the Company. The Board met four times during the year to select and recommend candidates for directorship during the year.

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES MEETINGS

	Meetings Attended/Held		
Directors	Board	Audit Committee	Remuneration Committee
Mr Liu Chengwei (appointed on 21 July 2008)	5/5	N/A	1/1
Mr Hu Bo (appointed on 21 July 2008)	5/5	N/A	N/A
Mr Shao Yan (appointed on 17 October 2008)	2/2	N/A	N/A
Mr Zhang Ji (appointed on 28 November 2008)	N/A	N/A	N/A
Ms So Tosi Wan, Winnie	9/9	2/2	2/2
Mr Lo Kai, Lawrence (appointed on 25 June 2008)	5/5	1/1	1/1
Mr Xin Dongsheng (appointed on 17 October 2008)	2/2	N/A	N/A
Ms He Jin Hong (resigned on 21 July 2008)	4/4	N/A	N/A
Mr Ha Sze Tung Sharp Stone (resigned on 21 July 2008)	4/4	N/A	1/1
Mr Wei Dong (resigned on 21 July 2008)	4/4	1/1	1/1
Mr Yang Yue (resigned on 28 March 2008)	N/A	N/A	N/A

AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK$830,000. During the year, SHINEWING (HK) CPA Limited was also engaged to carry out assignments on two very substantial acquisitions of the Company, total fees payable in respect of these non-audit services amounted to HK$2,600,000.

FINANCIAL REPORTING

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

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The directors are pleased to present their report together with the audited financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in Notes 45 and 21 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out on pages 19 to 87.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil). No interim dividend was declared during the year (2007: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Note 45 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 37 to the consolidated financial statements.

CHANGE OF COMPANY NAME

During the year, the English name of the Company was changed from Maxx Bioscience Holdings Limited to China Grand Pharmaceutical and Healthcare Holdings Limited and the Chinese name (for identification purpose only) was changed from 曼盛生物科技集團有限公司 to 遠大醫藥健康控股有限公司.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2008 are set out in Notes 45 and 21 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group during the year are set out in Notes 30 and 31 to the consolidated financial statements respectively.

DIRECTORS

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

Executive directors

Mr Liu Chengwei (appointed on 21 July 2008)
Mr Hu Bo (appointed on 21 July 2008)
Mr Shao Yan (appointed on 17 October 2008)
Ms He Jin Hong (resigned on 21 July 2008)
Mr Ha Sze Tung Sharp Stone (resigned on 21 July 2008)

Non-executive director

Mr Zhang Ji (appointed on 28 November 2008)

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence (appointed on 25 June 2008)
Mr Xin Dongsheng (appointed on 17 October 2008)
Mr Wei Dong (resigned on 21 July 2008)
Mr Yang Yue (resigned on 28 March 2008)

Mr Shao Yan was appointed as executive director and Mr Zhang Ji was appointed as non-executive director as additions to the Board. Pursuant to bye-law 86(2) of the Company's bye-laws, Mr Shao Yan and Mr Zhang Ji hold office until the next annual general meeting of the Company and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to bye-law 87(1) of the Company's bye-laws, Ms So Tosi Wan, Winnie retires by rotation and, being eligible, offers herself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTEREST

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

CONNECTED TRANSACTIONS

The acquisitions of Wuhan Grand and Wuda Hongyuan constitute connected transactions under Chapter 14A of the Listing Rules. Details of the acquisitions of Wuhan Grand and Wuda Hongyuan are set out in the Company's circulars dated 23 June 2008 and 13 November 2008 respectively. Both transactions were approved by independent shareholders at special general meetings held on 15 July 2008 and 28 November 2008 respectively.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17 May 2002 under which the Board may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

No share options were granted or exercised under the share option scheme during the year ended 31 December 2008 and there were no outstanding share options as at 31 December 2008.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, none of the directors or chief executive of the Company had any interests or short positions 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 (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	913,646,321 *(Note 2)*	73.65% *(Note 2)*
Mr Hu Kaijun *(Note 1)*	913,646,321 *(Note 2)*	73.65% *(Note 2)*

Notes:

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

2. Out of the total 913,646,321 shares, 746,979,654 shares (representing approximately 69.56% of the total issued share capital of the Company) are issued shares beneficially owned by Outwit Investments Limited, and 166,666,667 shares are to be issued upon full conversion of the convertible bond held by Outwit Investments Limited, details of which are set out in the circular of the Company dated 23 June 2008.

Save as disclosed herein, no other person is recorded in the register kept pursuant to Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company as at 31 December 2008.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group accounted for approximately 14% (2007: 87%) of the Group's total turnover, with the largest customer accounted for approximately 5% (2007: 72%).

The five largest suppliers, for the year ended 31 December 2008, accounted for approximately 22% (2007: 46%) of the Group's total purchases, with the largest supplier accounted for approximately 8% (2007: 20%).

None of the directors, their associates, or any shareholders of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital had an interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 8 to 11.

AUDITORS

SHINEWING (HK) CPA Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 16 March 2009

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Formerly known as MAXX BIOSCIENCE HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 87, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 an audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately HK$44,970,000 as at 31 December 2008. This condition indicates the existence of a material uncertainty in relation to the going concern of the Group at the balance sheet date.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
16 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Continuing operation			
Turnover	8	**269,882**	49,045
Cost of sales		**(160,136)**	(26,391)
Gross profit		**109,746**	22,654
Other income	9	**7,060**	12,139
Negative goodwill arising from acquisition of subsidiaries	39	**22,181**	—
Loss on disposal of subsidiaries	40	**(29,913)**	—
Distribution costs		**(61,059)**	(26,347)
Administrative expenses		**(56,234)**	(43,563)
Other operating expenses	10	**(163)**	(11,600)
Share of results of associates		**1,759**	660
Finance costs	11	**(16,064)**	(9,228)
Loss before tax	12	**(22,687)**	(55,285)
Income tax	13	**4**	2,205
Loss for the year from continuing operation		**(22,683)**	(53,080)
Discontinued operations	15		
Profit (loss) for the year from discontinued operations		**1,966**	(805)
		(20,717)	(53,885)
Attributable to:			
— Equity holders of the Company		**(24,233)**	(52,030)
— Minority interests		**3,516**	(1,855)
		(20,717)	(53,885)
Loss per share from continuing and discontinued operations	16		
Basic *(HK cents)*		**(20.94)**	(48.51)
Loss per share from continuing operation			
Basic *(HK cents)*		**(21.12)**	(48.44)

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	18	**132,237**	35,441
Interests in leasehold land held for own use under operating leases	19	**201,467**	4,435
Investment properties	20	**—**	70,696
Interests in associates	21	**36,745**	4,340
Available-for-sale financial assets	23	**21,202**	—
Intangible assets	24	**1,579**	—
		393,230	114,912
Current assets			
Inventories	26	**64,295**	8,078
Trade and other receivables	27	**64,821**	8,308
Interests in leasehold land held for own use under operating leases — current portion	19	**5,044**	119
Bank balances and cash	28	**42,501**	67,282
		176,661	83,787
Current liabilities			
Trade and other payables	29	**142,240**	52,515
Bank loans — secured	30	**77,273**	92,307
Other loan — secured	31	**—**	14,423
Tax payable		**2,118**	—
		221,631	159,245
Net current liabilities		**(44,970)**	(75,458)
Total assets less current liabilities		**348,260**	39,454
Non-current liabilities			
Bank loan — secured	30	**18,181**	—
Deferred taxation	32	**44,683**	—
Amount due to holding company	33	**19,951**	13,408
Provision for staff welfare and bonus	34	**—**	67,889
Convertible bond	35	**48,296**	—
Other payable	36	**128,191**	—
		259,302	81,297
Net assets (liabilities)		**88,958**	(41,843)

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	37	**10,739**	10,739
Reserves		**(6,131)**	(53,562)
Equity attributable to equity holders of the Company		**4,608**	(42,823)
Minority interests		**84,350**	980
Shareholders' equity (capital deficiency)		**88,958**	(41,843)

The consolidated financial statements on pages 19 to 87 were approved and authorised for issue by the board of directors on 16 March 2009 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital *HK$'000*	Share premium *HK$'000*	Convertible bond reserve *HK$'000*	Statutory reserves *HK$'000* *(note)*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Equity attributable to equity holders of the Company *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2007	10,739	94,457	—	148,158	(68,670)	(175,593)	9,091	2,829	11,920
Exchange differences arising on conversion of foreign operations	—	—	—	—	116	—	116	6	122
Net income recognised directly in equity	—	—	—	—	116	—	116	6	122
Loss for the year	—	—	—	—	—	(52,030)	(52,030)	(1,855)	(53,885)
Total recognised expense for the year	—	—	—	—	—	(52,030)	(52,030)	(1,855)	(53,885)
At 31 December 2007 and 1 January 2008	10,739	94,457	—	148,158	(68,554)	(227,623)	(42,823)	980	(41,843)
Exchange differences arising on conversion of foreign operations	—	—	—	—	(1,551)	—	(1,551)	—	(1,551)
Net expense recognised directly in equity	—	—	—	—	(1,551)	—	(1,551)	—	(1,551)
Loss for the year	—	—	—		—	(24,233)	(24,233)	3,516	(20,717)
Total recognised income and expense for the year	—	—	—	—	—	(24,233)	(24,233)	3,516	(20,717)
Equity component of convertible bond	—	—	3,900	—	—	—	3,900	—	3,900
Reverses released upon disposal of subsidiaries	—	—	—	(148,158)	69,959	148,158	69,959	—	69,959
Deferred tax arising on issue of convertible bond	—	—	(644)	—	—	—	(644)	—	(644)
Acquisition of subsidiaries	—	—	—	—	—	—	—	80,903	80,903
Transfer	—	—	—	1,732	—	(1,732)	—	—	—
Disposal of subsidiaries	—	—	—	—	—	—	—	(1,049)	(1,049)
At 31 December 2008	10,739	94,457	3,256	1,732	(146)	(105,430)	4,608	84,350	88,958

Note:

As stipulated in the relevant laws and regulations, certain subsidiaries operating in the People's Republic of China (the "PRC") are required to maintain certain statutory reserves which include the general reserve fund and staff welfare and bonus fund. Appropriations to the general reserve fund and the staff welfare and bonus fund are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of dividends. Starting from 1 January 2006, the Group is not required to transfer any net profit to staff welfare and bonus fund in accordance with the amendment in the PRC Companies Ordinance.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Loss before tax from continuing operation		**(22,687)**	(55,285)
Profit (loss) before tax from discontinued operations		**1,966**	(805)
Loss before tax		**(20,721)**	(56,090)
Adjustments for:			
Amortisation of intangible assets		**163**	1,400
Amortisation of interests in leasehold land held for own use under operating leases		**2,640**	119
Loss on disposal of investments at fair value through profit or loss		**—**	827
Depreciation of investment properties		**2,142**	4,722
Depreciation of property, plant and equipment		**7,689**	3,832
Finance costs		**16,064**	9,228
Gain on disposal of property, plant and equipment		**(408)**	(818)
Loss on disposal of subsidiaries		**29,913**	—
Negative goodwill arising from acquisition of subsidiaries		**(22,181)**	—
Impairment loss on goodwill arising from acquisitions of subsidiaries		**—**	1,050
Impairment loss on intangible assets		**—**	10,200
Impairment loss on properties, plant and equipment		**—**	1,107
Impairment loss on inventories		**528**	—
Impairment loss on trade receivable and other receivables		**316**	—
Bank Interest income		**(950)**	(561)
Gain on disposal of assets classified as held for sale		**—**	(7,622)
Reversal of impairment loss on trade and other receivables		**(267)**	(2,567)
Share of results of associates		**(1,759)**	(660)
Operating cash flows before movements in working capital		**13,169**	(35,833)
Increase in inventories		**(16,694)**	(4,001)
Decrease in trade and other receivables		**22,335**	2,369
Increase in trade and other payables		**9,664**	20,392
Decrease in provision for staff welfare and bonus		**—**	(11)
Net cash generated from (used in) operations		**28,474**	(17,084)
Income tax paid		**(396)**	—
Net cash generated from (used in) operating activities		**28,078**	(17,084)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	**2008** **HK$'000**	2007 HK$'000
Investing activities			
Net cash inflow from acquisition of subsidiaries	*39*	**56,329**	—
Bank interest income received		**950**	561
Proceeds from disposal of property, plant and equipment		**950**	2,165
Proceeds from disposal of available-for-sale financial assets		**275**	—
Repayment from a former holding company of a subsidiary		**47**	—
Acquisition of associates		**(35,454)**	—
Net cash outflow on disposal of subsidiaries	*40*	**(31,540)**	—
Purchase of property, plant and equipment		**(16,836)**	(7,078)
Proceeds from disposal of investments at fair value through profit or loss		**—**	9,692
Net cash (used in) generated from investing activities		**(25,279)**	5,340
Financing activities			
Repayments of short-term bank loans		**(26,442)**	(57,506)
Interest paid		**(9,303)**	(9,228)
Other loans raised		**7,000**	—
Advance from holding company		**6,543**	2,400
New short-term bank loans raised		**—**	92,307
Repayment of other loans		**—**	(8,488)
Net cash (used in) generated from financing activities		**(22,202)**	19,485
Net (decrease) increase in cash and cash equivalents		**(19,403)**	7,741
Cash and cash equivalents at beginning of year		**67,282**	59,407
Effect of foreign exchange rate changes		**(5,378)**	134
Cash and cash equivalents at end of year, representing			
Bank balances and cash		**42,501**	67,282

1. GENERAL INFORMATION

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacturing and supplying of pharmaceutical products in the People's Republic of China (the "PRC").

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[3]
HKFRS 1 & HKAS27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellation[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7	Financial instruments: Disclosures-Improving about Financial Instrument[2]
HKFRS 8	Operating segments[2]
HK (IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK (IFRIC) – INT 15	Agreements for the Construction of Real Estates[2]
HK (IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operations[5]
HK (IFRIC) – INT 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC) – INT 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial position of the Group.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net current liabilities of approximately HK$44,970,000 as at 31 December 2008.

In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to, the following:

1. the directors anticipate that the Group will generate positive cash flows from its businesses; and

2. the directors have implemented measures to tighten cost controls over various distribution costs and administrative expenses and to improve the Group's cash flow position and operating results.

On the basis that the Group obtained the continuing availability of the banking facilities provided by its banks and the implementation of other measures with a view to improve its working capital position and net financial position, the directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2008. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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 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.

(i) Financial assets

The Group classifies its financial assets into one of the following categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments. The Group designated unlisted debt securities and unlisted equity securities as available-for-sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For 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 instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequent reversed 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Convertible bond contains liability and equity components

Convertible bond issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bond reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity *(Continued)*

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond reserve until the embedded option is exercised (in which case the balance stated in convertible bond reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible bond reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond 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 charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to the initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(iv) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, 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 directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share based payments

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transfer to retained profits.

Leasing

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

The Group as lessor

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

The Group as lessee

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weight average method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regards as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of the assets' (or disposal group) previous carrying amount and fair value less cost to sell.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income tax

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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, the existence of which 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 4, the directors of the Company are required to make the following key assumptions that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Estimated useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortisation charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond 10 years.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated useful lives of property, plant and equipment and intangible assets (other than goodwill) *(Continued)*

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturns in the Company's stock price. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Impairment of trade and other receivables

The policy for impairment of trade and receivables of the Group is based on the evaluation of collectability and aging analysis of the loans and receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2007, an impairment loss of approximately HK$1,050,000 (2008: nil) has been provided.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of assets (other than goodwill)

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– investment properties;
– interests in leasehold land held for own use under operating leases;
– available-for-sale financial assets
– intangible assets; and
– investments in subsidiaries and associates

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amounts.

The sources utilised to identify indications of impairment are often subjective in nature and the Group is required to use judgment in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank and other loans disclosed in note 30 and 31 respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through raise of new loans or repayment of existing loans.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale financial assets	**21,202**	—
Loan and receivables (including cash and cash equivalents)		
Trade and other receivables	**47,738**	6,435
Bank balances and cash	**42,501**	67,282
Financial liabilities		
Convertible bond	**48,296**	—
Other financial liabilities		
Trade and other payables	**206,860**	45,309
Bank loans — secured	**95,455**	92,307
Other loan — secured	**—**	14,423
Amount due to holding company	**19,951**	13,408

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

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

i. Fair value of financial assets and financial liabilities

The directors consider the fair values of trade and other receivables, bank balances and cash, trade and other payables, bank and other loans reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

The fair value of convertible bond is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

ii. Foreign currency risk

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. Certain bank balances, trade and other receivables and trade and other payables are denominated in the functional currency as at 31 December 2008. The functional currency is also used to settle expenses for PRC operations.

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. Foreign currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of HK$ against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

	2008	2007
	HK$'000	*HK$'000*
Increase (decrease) in loss for the year		
— if HK$ weakens against RMB	**2,248**	710
— if HK$ strengthens against RMB	**(2,248)**	(710)

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

iii. Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2008 as its financial assets due within one year were less than its financial liabilities due within one year. At 31 December 2008, maximum banking facilities in an aggregate amount of approximately HK$117 million (2007: approximately HK$92 million) were available from the Group's principal bankers, of which approximately HK$95 million (2007: HK$92 million) has been utilised.

The Group had net current liabilities of approximately HK$44,970,000 as at 31 December 2008 (2007: HK$75,458,000). The liquidity of the Group is primarily dependent on bank loans.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. Liquidity risk *(Continued)*

The following table details the contractual maturities at the balance sheet date of the 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 balance sheet date) and the earliest date the Group can be required to pay:

As at 31 December 2008

	Total contractual undiscounted cash flow	**Within one year or on demand**	**More than one year less than two years**	**Carrying amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade and other payables	**142,240**	**142,240**	**—**	**142,240**
Bank loans — secured	**102,460**	**82,945**	**19,515**	**95,454**
Amount due to holding company	**19,951**	**—**	**19,951**	**19,951**
Convertible bond	**50,000**	**—**	**50,000**	**48,296**
Other payable	**150,000**	**—**	**150,000**	**128,191**
	464,651	**225,185**	**239,466**	**434,132**

As at 31 December 2007

	Total contractual undiscounted cash flow	Within one year or on demand	More than one year less than two years	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	52,515	52,515	—	52,515
Bank loans — secured	95,725	95,725	—	92,307
Other loan — secured	16,803	16,803	—	14,423
Amount due to holding company	13,408	—	13,408	13,408
	178,451	165,043	13,408	172,653

7. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk

Credit risk refers to the risk that trade receivables will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted. As the number of customers of the Group over 500, the Group does not consider there are any concentration of credit risk.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

v. Interest risk

The Group's exposure to interest rate risk mainly arises on certain bank deposits at variable-interest rate, liabilities potion arising from convertible bond and interest-bearing borrowings at fixed-interest rates. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Interest rate sensitivity

If the interest rates had been increased/decreased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's loss after tax and accumulated losses would increase/decrease by approximately HK$955,000 (2007: HK$923,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits.

The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

8. TURNOVER AND SEGMENT INFORMATION

(a) Business segments

For management purpose, the Group is currently engaged in manufacturing and sales of pharmaceutical and health products.

The Group was also involved in properties holding for earning rental income and trading of securities. These operations were discontinued on 17 July 2008 subsequent to the disposal of subsidiaries (Note 15).

Segment information about these businesses is presented below:

For the year ended 31 December

	Continuing operation		Discontinued operations					
	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment Revenue								
Turnover	**269,882**	49,045	**—**	—	**—**	—	**269,882**	49,045
Other income	**7,060**	12,139	**4,108**	4,744	**—**	—	**11,168**	16,883
	276,942	61,184	**4,108**	4,744	**—**	—	**281,050**	65,928
Segment Result	**(5,818)**	(29,611)	**1,966**	22	**—**	(827)	**(3,852)**	(30,416)
Unallocated corporate expenses							**(805)**	(16,446)
Finance costs							**(16,064)**	(9,228)
Loss before tax							**(20,721)**	(56,090)
Income tax							**4**	2,205
Loss for the year							**(20,717)**	(53,885)
As at 31 December								
Assets								
Segment assets	**490,269**	52,564	**—**	70,696	**—**	—	**490,269**	123,260
Interests in associates	**36,745**	4,340	**—**	—	**—**	—	**36,745**	4,340
Unallocated corporate assets	**—**	—	**—**	—	**—**	—	**42,877**	71,099
Consolidated total assets	**527,014**	56,904	**—**	70,696	**—**	—	**569,891**	198,699
Liabilities								
Segment liabilities	**185,244**	207,039	**—**	—	**—**	—	**185,244**	207,039
Unallocated corporate liabilities	**—**	—	**—**	—	**—**	—	**295,689**	33,503
Total liabilities	**185,244**	207,039	**—**	—	**—**	—	**480,933**	240,542

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31 December

	Continuing operations: Manufacturing and sales of pharmaceutical and health products		Discontinued operations: Properties holding for earning rental income		Discontinued operations: Trading of securities		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
OTHER INFORMATION								
Capital expenditure	**16,836**	7,078	**—**	—	**—**	—	**16,836**	7,078
Depreciation and amortisation	**10,492**	5,351	**2,142**	4,722	**—**	—	**12,634**	10,073
Impairment loss on inventories	**528**	—	**—**	—	**—**	—	**528**	—
Impairment loss on trade and other receivable	**316**	—	**—**	—	**—**	—	**316**	—
Impairment loss on goodwill arising from acquisitions of subsidiaries	**—**	1,050	**—**	—	**—**	—	**—**	1,050
Impairment loss on intangible assets	**—**	10,200	**—**	—	**—**	—	**—**	10,200
Impairment loss on property, plant and equipment	**—**	1,107	**—**	—	**—**	—	**—**	1,107
Gain on disposal of property, plant and equipment	**408**	818	**—**	—	**—**	—	**408**	818
Gain on disposal of assets classified as held for sale	**—**	7,622	**—**	—	**—**	—	**—**	7,622
Negative goodwill arising from acquisition of subsidiaries	**(22,181)**	—	**—**	—	**—**	—	**(22,181)**	—
Loss on disposal of subsidiaries	**29,913**	—	**—**	—	**—**	—	**29,913**	—
Reversal of impairment loss on trade and other receivables	**(267)**	(2,567)	**—**	—	**—**	—	**(267)**	(2,567)
Loss on disposal of investments at fair value through profit or loss	**—**	—	**—**	—	**—**	(827)	**—**	(827)

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of operations, and assets are attributed to the segments based on the location of the assets.

	PRC		America		Europe		Asia other than PRC		Others		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue												
Turnover	**201,876**	49,045	**25,113**	—	**17,195**	—	**16,932**	—	**8,766**	—	**269,882**	49,045
Other income	**11,168**	16,883	**—**	—	**—**	—	**—**	—	**—**	—	**11,168**	16,883
	213,044	65,928	**25,113**	—	**17,195**	—	**16,932**	—	**8,766**	—	**281,050**	65,928
Segment assets	**569,891**	190,996	**—**	—	**—**	—	**—**	—	**—**	7,703	**569,891**	198,699
Capital expenditure	**16,836**	7,078	**—**	—	**—**	—	**—**	—	**`—**	—	**16,836**	7,078

9. OTHER INCOME

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Rental income	**—**	—	**4,398**	7,790	**4,398**	7,790
Less: direct operating expenses that generated rental income during the year	**—**	—	**(290)**	(3,046)	**(290)**	(3,046)
	—	—	**4,108**	4,744	**4,108**	4,744
Sales of raw materials, scrap and other materials	**2,584**	—	**—**	—	**2,584**	—
Reversal of impairment loss on trade and other receivables	**267**	2,567	**—**	—	**267**	2,567
Gain on disposal of property, plant and equipment	**408**	818	**—**	—	**408**	818
Bank interest income	**950**	561	**—**	—	**950**	561
Government grants *(Note)*	**615**	—	**—**	—	**615**	—
Others	**2,236**	571	**—**	—	**2,236**	571
Gain on disposal of assets classified as held for sale	**—**	7,622	**—**	—	**—**	7,622
	7,060	12,139	**4,108**	4,744	**11,168**	16,883

Note: During the year ended 31 December 2008, government grants of approximately HK$615,000 have been received to subsidise the development and industrialisation of pharmaceutical products, and to encourage export sales in the PRC.

10. OTHER OPERATING EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Amortisation of intangible assets	**163**	1,400
Impairment loss on intangible assets	**—**	10,200
	163	11,600

11. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank loan wholly repayable within five years	**6,438**	4,970
Interest on other loan wholly repayable within five years	**2,865**	4,258
Effective interest on convertible bond	**2,196**	—
Effective interest on other payable	**4,565**	—
	16,064	9,228

12. LOSS BEFORE TAX

	Continuing operation		Discontinued operations		Consolidated	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Loss before tax is stated after charging:						
Staff costs (excluding directors' emoluments) comprise:						
— Wages and salaries	**29,914**	13,473	**—**	—	**29,914**	13,473
— Retirement benefits schemes contributions	**2,837**	565	**—**	—	**2,837**	565
	32,751	14,038	**—**	—	**32,751**	14,038
Auditors' remuneration						
— audit services	**830**	530	**—**	—	**830**	530
— non-audit services	**2,600**	—	**—**	—	**2,600**	—
Share of tax of associates	**148**	127	**—**	—	**148**	127
Cost of inventories recognised as an expense	**160,136**	26,391	**—**	—	**160,136**	26,391
Depreciation of property, plant and equipment	**7,689**	3,832	**—**	—	**7,689**	3,832
Depreciation of investment properties	**—**	—	**2,142**	4,722	**2,142**	4,722
Operating lease rentals in respect of land and buildings	**199**	566	**—**	—	**199**	566

12. LOSS BEFORE TAX *(Continued)*

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amortisation of interests in leasehold land held for own use under operating leases	**2,640**	119	**—**	—	**2,640**	119
Research and development expenses	**—**	3,118	**—**	—	**—**	3,118
Impairment loss on intangible assets (included in other operating expenses)	**—**	10,200	**—**	—	**—**	10,200
Impairment loss on goodwill arising from acquisition of subsidiaries (included in administrative expenses)	**—**	1,050	**—**	—	**—**	1,050
Impairment loss on properties, plant and equipment (included in administrative expenses)	**—**	1,107	**—**	—	**—**	1,107
Gain on disposal of property, plant and machinery	**(408)**	(818)	**—**	—	**(408)**	(818)

13. INCOME TAX

	2008	2007
	HK$'000	*HK$'000*
Current tax:		
PRC	**711**	—
Deferred tax *(Note 32)*		
Hong Kong	**(156)**	—
PRC	**(559)**	(2,205)
	(715)	(2,205)
	(4)	(2,205)

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company and its subsidiaries which operate in Hong Kong have no assessable profits for both years.

13. INCOME TAX *(Continued)*

The subsidiaries operate in the PRC during the year ended 31 December 2007 are subjected to PRC enterprise income tax of 15%.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises to 25%. The tax rate of certain subsidiaries changed from 33% to 25% from 1 January 2008.

In addition, Wuhan Grand Pharmaceutical Group Company Limited, a subsidiary of the Group was exempted from PRC enterprise income tax for the two years starting from 2005 and is entitled to a 50% reduction on the PRC enterprise income tax for the following three years in accordance with Articles 8 of Income Tax Law of PRC for enterprises with Foreign Investment and Foreign Enterprises. All corresponding PRC enterprise income tax relating to the taxable profit of Wuhan Grand Pharmaceutical Group Company Limited during the year has been recognised in the consolidated income statement at a tax rate of 12.5%. All other PRC subsidiaries of the Group are subjected to the tax rate of 25%.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

13. INCOME TAX *(Continued)*

The income tax for the year is reconciled to the loss before tax per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
Loss before tax		
Continuing operation	**(22,687)**	(55,285)
Discontinued operations	**1,966**	(805)
	(20,721)	(56,090)
Tax at the domestic income tax rate of 25% (2007: 15%)	**(5,180)**	(8,414)
Tax effect of share of profit of associates	**(148)**	(127)
Tax effect of expenses not deductible for tax purpose	**8,261**	203
Tax effect of income not taxable for tax purpose	**(5,868)**	(222)
Tax effect of deductible temporary differences	**715**	1,696
Income tax on concessionary rate	**(711)**	—
Tax effect of tax losses not recognised	**2,927**	4,869
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**—**	(210)
Tax credit for the year	**(4)**	(2,205)

The applicable tax rate of 25% (2007: 15%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2007: nil).

15. DISCONTINUED OPERATIONS

On 28 April 2008, the Group entered into a sale agreement to dispose of a subsidiary, Bright Strong Profits Limited, which carried out property holding for earning rental income, trading of securities and manufacturing and sales of pharmaceutical and health products. The disposal was completed on 17 July 2008, on which date control of Bright Strong Profits Limited passed to the acquirer.

The profit (loss) for the year from the discontinued operations is analysed as follows:

	Period ended 17 July 2008	Year ended 31 December 2007
	HK$'000	*HK$'000*
Profit (loss) from property holding for earning rental income and trading of securities	**1,966**	(805)

The results of the discontinued operations for the period from 1 January 2008 to 17 July 2008, which have been included in the consolidated income statement, were as follows:

	Period ended 17 July 2008	Year ended 31 December 2007
	HK$'000	*HK$'000*
Other income	**4,108**	4,744
Loss on disposal of investment at fair value through profit or loss	**—**	(827)
Administrative expenses	**(2,142)**	(4,722)
	1,966	(805)

During the year ended 31 December 2008, the discontinued operations of property holding contributed approximately HK$1,966,000 (2007: HK$22,000) to the Group's net operating cash flows. The discontinued operations of trading securities did not contribute any cash flows for the year ended 31 December 2008 (2007: contributed approximately HK$9,692,000).

The carrying amounts of the assets for the discontinued operations at the date of disposal represented the investment properties of Bright Strong Profits Limited are disclosed in Note 40.

16. LOSS PER SHARE

	2008	2007
	HK cents	*HK cents*
Basic loss per share:		
Continuing operation	**(21.12)**	(48.44)
Discontinued operations	**0.18**	(0.07)
	(20.94)	(48.51)

(a) Basic loss per share

The calculation of basic loss per share from continuing operation is based on the loss attributable to equity holders of the Company of approximately HK$22,683,000 (2007: approximately HK$53,080,000) and on 1,073,934,000 ordinary shares in issue during both years ended 31 December 2008 and 2007.

The calculation of basic loss per share from discontinued operations is based on the profit attributable to equity holders of the Company of approximately HK$1,966,000 (2007: loss attributable to equity holders of the Company of approximately HK$805,000) and on 1,073,934,000 ordinary shares in issue during both years ended 31 December 2008 and 2007.

(b) Diluted loss per share

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bond since their exercise would result in a decrease in loss per share.

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2008	2007
Details of directors' emoluments are as follows:	***HK$'000***	*HK$'000*
Fees:		
Executive directors	**72**	154
Independent non-executive directors	**255**	300
	327	454
Other emoluments		
Salaries and allowances	**223**	—
Retirement benefits scheme contributions	**3**	—
	553	454

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office for both years ended 31 December 2008 and 2007.

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments paid or payable to each of the eleven (2007: five) directors were as follows:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr Liu Chengwei (Appointed on 21 July 2008)	—	—	—	—
Mr Hu Bo (Appointed on 21 July 2008)	—	—	—	—
Mr Shao Yan (Appointed on 17 October 2008)	—	223	3	226
Ms He Jin Hong (Resigned on 21 July 2008)	72	—	—	72
Mr Ha Sze Tung Sharp Stone (Resigned on 21 July 2008)	—	—	—	—
Non-executive director				
Mr Zhang Ji (Appointed on 28 November 2008)	—	—	—	—
Independent non-executive directors:				
Ms So Tosi Wan, Winnie	180	—	—	180
Mr Lo Kai, Lawrence (Appointed on 25 June 2008)	30	—	—	30
Mr Xin Dongsheng (Appointed on 17 October 2008)	15	—	—	15
Mr Wei Dong (Resigned on 21 July 2008)	30	—	—	30
Mr Yang Yue (Resigned on 28 March 2008)	—	—	—	—
Total	327	223	3	553

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2007 are as follows:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Ms. He Jin Hong	154	—	—	154
Mr. Ha Sze Tung Sharp Stone	—	—	—	—
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	—	—	180
Mr. Wei Dong	60	—	—	60
Mr. Yang Yue	60	—	—	60
Total	454	—	—	454

During both years ended 31 December 2008 and 2007, no directors of the Company waived any emoluments.

(b) The five highest paid individuals do not include any directors for both years ended 31 December 2008 and 2007. The emoluments of the five (2007: five) highest paid individuals were as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Employees		
Salaries and allowances	**1,661**	3,466
Retirement benefits schemes contributions	**19**	152
	1,680	3,618

The emoluments of the five highest paid individuals are fallen within the following bands:

	2008 ***HK$'000***	2007 *HK$'000*
Nil — HK$1,000,000	**5**	4
HK$1,500,001 — HK$2,000,000	**—**	1
	5	5

During both years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Equipment	Motor vehicles	Others	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2007	116,810	32,682	8,256	5,044	5,509	—	168,301
Exchange realignment	7,534	2,108	488	325	307	—	10,762
Additions	1,056	5,095	872	21	34	—	7,078
Disposals	(3,270)	(670)	(1,301)	(116)	(421)	—	(5,778)
At 31 December 2007 and at 1 January 2008	122,130	39,215	8,315	5,274	5,429	—	180,363
Exchange realignment	7,548	2,350	467	(1)	312	(4)	10,672
Additions	—	4,412	912	140	11	11,361	16,836
Acquired on acquisition of subsidiaries	52,512	56,905	2,570	4,440	—	5,978	122,405
Disposal of subsidiaries	(129,647)	(42,598)	(8,311)	(5,278)	(5,325)	—	(191,159)
Disposals	(85)	(301)	(133)	(253)	(15)	—	(787)
Transfer	1,172	2,144	611	—	—	(3,927)	—
At 31 December 2008	53,630	62,127	4,431	4,322	412	13,408	138,330
Accumulated depreciation and impairment							
At 1 January 2007	91,852	28,992	6,293	3,811	4,784	—	135,732
Exchange realignment	5,925	1,870	363	244	280	—	8,682
Impairment loss recognised for the year	—	1,107	—	—	—	—	1,107
Depreciation provided for the year	1,492	1,542	432	216	150	—	3,832
Eliminated on disposals	(2,417)	(603)	(1,150)	(49)	(212)	—	(4,431)
At 31 December 2007 and at 1 January 2008	96,852	32,908	5,938	4,222	5,002	—	144,922
Exchange realignment	6,025	1,799	326	263	286	—	8,699
Depreciation provided for the year	2,500	3,578	1,193	346	72	—	7,689
Disposal of subsidiaries	(103,594)	(36,016)	(5,853)	(4,574)	(4,935)	—	(154,972)
Eliminated on disposals	(48)	—	(83)	(101)	(13)	—	(245)
At 31 December 2008	1,735	2,269	1,521	156	412	—	6,093
Carrying values							
At 31 December 2008	51,895	59,858	2,910	4,166	—	13,408	132,237
At 31 December 2007	25,278	6,307	2,377	1,052	427	—	35,441

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5% — 5%
Plant and machinery	5% — 10%
Equipment	12% — 20%
Motor vehicles	12%
Others	18% — 20%

The Group's interests in buildings are held under the following lease terms:

	2008	2007
	HK$'000	*HK$'000*
Held in the PRC with unspecified lease terms	**—**	3,542
Held in the PRC under medium-term leases	**51,895**	21,736
	51,895	25,278

Certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as detail in note 43.

19. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's interests in leasehold land held for own use under operating leases are held under the medium lease terms in the PRC:

	2008	2007
	HK$'000	*HK$'000*
At beginning of year	**4,554**	4,393
Transfer to assets classified as held for sale	**—**	(21,220)
Transfer of impairment loss to assets classified as held for sale	**—**	21,220
Arising on acquisition of subsidiaries	**209,120**	—
Disposal of subsidiaries	**(4,772)**	—
Amortisation for the year	**(2,640)**	(119)
Exchange realignment	**249**	280
At end of year	**206,511**	4,554

Certain leasehold land in the Group has been pledged to banks to secure general bank loans granted to the Group as detailed in note 43.

	2008	2007
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	**5,044**	119
Non-current assets	**201,467**	4,435
	206,511	4,554

20. INVESTMENT PROPERTIES

	2008	2007
	HK$'000	*HK$'000*
Cost		
At beginning of year	**83,172**	78,132
Disposal of subsidiaries	**(88,346)**	—
Exchange realignment	**5,174**	5,040
At end of year	**—**	83,172
Accumulated depreciation and impairment		
At beginning of year	**12,476**	7,284
Provided for the year	**2,142**	4,722
Disposal of subsidiaries	**(15,461)**	—
Exchange realignment	**843**	470
At end of year	**—**	12,476
Carrying values		
At 31 December	**—**	70,696

The fair value of the Group's investment properties at 31 December 2007 was approximately HK$108,556,000 (2008: nil). The fair value of the Group's investment properties at 31 December 2007 had been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group, by reference to market evidence of transaction prices for similar properties.

The investment properties were depreciated on a straight-line basis over 20 years.

The investment properties was disposed of through the disposal of subsidiaries during the year.

Analysis of carrying value of investment properties is as follows:

	2008	2007
	HK$'000	*HK$'000*
Held in the PRC under medium-term leases	**—**	44,618
Held in the PRC under long leases	**—**	9,183
Held in the PRC with unspecified lease terms	**—**	16,895
	—	70,696

21. INTERESTS IN ASSOCIATES

	2008	2007
	HK$'000	*HK$'000*
Cost of investment in associates	**35,454**	15,456
Share of post acquisition result	**1,291**	(2,565)
Share of net assets of associates	**36,745**	12,891
Impairment loss recognised	**—**	(8,551)
	36,745	4,340

The amount of goodwill arising on acquisitions of associates is set out below:

	HK$'000
Cost	
At 1 January 2007, 31 December 2007 and 1 January 2008	2,689
Arising on acquisition of associates	555
Disposal of subsidairies	(2,689)
At 31 December 2008	555
Accumulated impairment loss	
At 1 January 2007, 31 December 2007, 1 January 2008	2,689
Disposal of subsidiaries	(2,689)
At 31 December 2008	—
Carrying values	
At 31 December 2008	555
At 31 December 2007	—

21. INTERESTS IN ASSOCIATES *(Continued)*

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

	2008 *HK$'000*	2007 *HK$'000*
Total assets	**85,341**	76,600
Total liabilities	**(15,745)**	(25,158)
Net assets	**69,596**	51,442
Group's share of net assets of associates	**36,190**	(17,241)
Revenue	**(121,782)**	(82,766)
Profit (loss) for the year	**5,821**	(600)
Group's share of results of associates for the year	**1,759**	660
Unrecognised share of losses of associates during the year	**—**	(1,780)
Accumulated unrecognised share of losses of associates	**—**	(2,935)

Details of the principal associates at 31 December 2008 are as follows:

Name	**Place of incorporation/ operation**	**Form of business structure**	**Percentage of effective equity interest attributable to the Group**	**Particulars of issued/paid-up capital**	**Principal activities**
Wuhan Wuda Hongyuan Company Limited *(Note)*	PRC/PRC	Limited liability company	52%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Wuda Hongyuan Biological Technology Company Limited *(Note)*	PRC/PRC	Limited liability company	52%	Contributed capital RMB5,000,000	Inactive

21. INTERESTS IN ASSOCIATES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest attributable to the Group	Particulars of issued/paid-up capital	Principal activities
Wuhan Wuda Hongyuan Yaoye Company Limited *(Note)*	PRC/PRC	Limited liability company	52%	Contributed capital RMB20,500,000	Manufacture and distribution of amino acid products

Note: On 28 November 2008, the Group completed the acquisition of 52% equity interests in Wuhan Wuda Hongyuan Company Limited at a consideration of RMB31,200,000 (approximately HK$35,454,000). Despite the Group has 52% effective interests in Wuhan Wuda Hongyuan Company Limited, the Group has no control in Wuhan Wuda Hongyuan Company Limited as the Group only has the right to nominate only 3 out of 7 of the directors of Wuhan Wuda Hongyuan Company Limited. The directors of the Company consider that the Group does exercise significant influence over Wuhan Wuda Hongyuan Company Limited and it is therefore classified as an associate of the Group.

22. GOODWILL

	2008	2007
	HK$'000	*HK$'000*
Cost	**3,228**	3,228
Accumulated impairment loss		
At beginning of year	**3,228**	2,178
Impairment loss recognised for the year	**—**	1,050
At end of year	**3,228**	3,228
Carrying amounts		
At 31 December	**—**	—

For the year ended 31 December 2007, the directors of the Company decided not to further invest in the business of distribution of Lei Yun Shang products outside of the PRC. The decision had been made after taking into consideration that the existing laws in force and other regulatory requirements in the development of the distribution business. The directors had considered the time and costs involved outweigh the benefits that the business will bring about and expect that the business will not bring about any positive future cash flow. Accordingly, an impairment loss of HK$1,050,000 has been recognised in the consolidated income statement during the year ended 31 December 2007.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008	2007
	HK$'000	*HK$'000*
Unlisted debt securities, at fair value	**317**	—
Unlisted equity securities, at cost	**20,885**	—
	21,202	—

The above debt securities represent debt securities with fixed interests ranging from 7.8% to 10.1% per annum and maturity dates between 2007 and 2009, and stated at fair values as of 31 December 2008.

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

24. INTANGIBLE ASSETS

Group	**Acquired patent rights** *HK$'000* *(note (a))*	**Acquired exclusive distribution right** *HK$'000* *(note (b))*	**Total** *HK$'000*
Cost			
At 1 January 2007 and 31 December 2007	—	14,000	14,000
Arising on acquisition of subsidiaries	1,744	—	1,744
Exchange realignment	(2)	—	(2)
At 31 December 2008	1,742	14,000	15,742
Accumulated amortisation and impairment loss			
At 1 January 2007	—	2,400	2,400
Provided for the year	—	1,400	1,400
Impairment loss recognised	—	10,200	10,200
At 31 December 2007 and 1 January 2008	—	14,000	14,000
Provided for the year	163	—	163
At 31 December 2008	163	14,000	14,163
Carrying values			
As at 31 December 2008	1,579	—	1,579
As at 31 December 2007	—	—	—

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

Intangible asset	**Useful economic life**
Acquired patent rights	5.5 years
Acquired exclusive distribution right	10 years

24. INTANGIBLE ASSETS *(Continued)*

Notes:

(a) In April 2008, the Group acquired the patent rights of eye drops from Long Smart Investments Limited, a wholly-owned subsidiary of Outwit.

(b) In August 2005, the Group entered into an agreement with a third party to acquire a subsidiary, Seapearl Trading Limited, at a consideration of HK$14,000,000. This subsidiary has an exclusive license for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by an independent third party in any parts of the world other than the PRC. The value of the acquired distribution rights is amortised on the straight-line basis over 10 years.

Impairment testing on intangible assets

The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2008. The directors considered that the recoverable amount of the intangible assets has been determined based on the value-in-use calculation and the intangible assets were valued at approximately HK$1,579,000. Accordingly, no impairment loss has been recognised in the consolidated income statement for the year ended 31 December 2008. The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2007 with reference to the current results from the business and consideration on the ability to generate future cash flows. The directors considered that there would be no economic benefit generated from the distribution right and determined the recoverable amount of the intangible assets is nil. Accordingly, an impairment loss of HK$10,200,000 had been recognised in the consolidated income statement during the year ended 31 December 2007.

25. ASSETS CLASSIFIED AS HELD FOR SALE

	2008	2007
	HK$'000	*HK$'000*
Net carrying amounts		
At beginning of year	—	13,624
Disposals	—	(13,624)
Transfer from interests in leasehold land during the year	—	21,220
Transfer of impairment loss from interests in leasehold land during the year	—	(21,220)
At end of year	—	—

Note:

During the year ended 31 December 2007, the Group has agreed to dispose a parcel of leasehold land to a third party at a consideration of approximately HK$10,610,000. This leasehold land with an original cost of approximately HK$21,220,000 was fully impaired in previous years. The total consideration was received during the year ended 31 December 2007 and included in other payables.

However, as stipulated in the sales and purchase agreement, the Group had an obligation for a full refund of the consideration received for the transaction should there be any difficulties in the completion of the transaction and the due transfer of the title and ownership of the land. The assets classified as held for sale were disposed of through the disposal of subsidiaries during the year ended 31 December 2008 (note 40).

26. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**15,289**	3,515
Work-in-progress	**13,289**	282
Finished goods	**37,570**	4,281
	66,148	8,078
Less: impairment loss	**(1,853)**	—
	64,295	8,078

27. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables		
— from third parties	**22,462**	270
— from an associate *(Note)*	**—**	6,165
Total trade receivables	**22,462**	6,435
Bills receivables	**25,276**	—
Other receivables, deposits and prepayments	**22,472**	21,539
Less: impairment loss	**(5,389)**	(19,666)
	64,821	8,308

Note: The balance with an associate was unsecured and interest-free.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

The aging analysis of trade receivables is set out below:

	2008 *HK$'000*	2007 *HK$'000*
Within 90 days	**19,879**	6,439
91 — 180 days	**2,033**	141
181 — 365 days	**558**	97
Over 365 days	**35,392**	3,137
	57,862	9,814
Less: accumulated impairment	**(35,400)**	(3,379)
	22,462	6,435

The normal credit period granted by the Group is 90 days.

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

Trade receivables amounted to approximately HK$19,879,000 as at 31 December 2008 (2007: HK$6,439,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

	2008 *HK$'000*	2007 *HK$'000*
Balance at beginning of the year	**3,379**	4,180
Arising on acquisition of subsidiaries	**35,143**	—
Disposal of subsidiaries	**(3,379)**	—
Impairment loss recognised on receivables	**316**	—
Impairment loss reversed	**—**	(1,038)
Exchange realignment	**(59)**	237
Balance at end of the year	**35,400**	3,379

At each of the balance sheet date, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The Group does not hold any collateral over these balances.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	**19,666**	21,915
Arising on acquisition of subsidiaries	**4,087**	—
Disposal of subsidiaries	**(18,023)**	—
Impairment loss reversed	**(267)**	(1,529)
Amount written off as uncollectible	**—**	(2,018)
Exchange realignment	**(74)**	1,298
Balance at end of the year	**5,389**	19,666

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

Included in the Group's trade receivables are balances with aggregate carrying amount of HK$2,583,000 (2007: nil) which was past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 150 days (2007: nil).

	2008	2007
	HK$'000	*HK$'000*
91 — 180 days	**2,033**	—
181 — 365 days	**550**	—
	2,583	—

28. BANK BALANCES AND CASH

The Group's bank deposit, bank balances and cash that are denominated in currencies other than the functional currency of the relevant entities are set out below:

		United States Dollars
	HK$'000	***$'000***
As at 31 December 2008	9	38
As at 31 December 2007	1,702	28

As at 31 December 2007, included in the bank balances and cash is bank deposit of approximately HK$21,220,000 (2008: nil) carries interest at a fixed rate at 3.4% (2008: nil). All other bank balances carry interest at the prevailing market interest rates.

Certain amount of deposit was pledged to bank to guarantee the issuance of bills payable (Note 43).

29. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**41,367**	2,846
Accrued charges and other creditors	**100,873**	49,669
	142,240	52,515

The following is an aged analysis of trade payables at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
0 to 90 days	**22,357**	2,846
Over 90 days	**19,010**	—
	41,367	2,846

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

30. BANK LOANS — SECURED

	2008	2007
	HK$'000	*HK$'000*
Carrying amount repayable		
On demand or within one year	**77,273**	92,307
More than one year but not exceeding two years	**18,181**	—
	95,454	92,307

All bank loans are secured by buildings, interests in leasehold land held for own use under operating lease and investment properties of the Group in the PRC as detailed in Note 43, which are denominated in RMB and granted by banks in the PRC. These bank loans bear fixed interest rates from 6.23% to 7.84% (2007: 6.44% to 7.34%) per annum.

31. OTHER LOAN — SECURED

The amount was secured by the entire issued share capital of a Company's subsidiary, interest bearing from 1.5% to 3% per month, and was disposed of through the disposal of subsidiaries during the year (Note 43).

32. DEFERRED TAXATION

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

	Exclusive distribution right *HK$'000*	Convertible bond *HK$'000*	Interests in leasedhold land held for own use under operating leases *HK$'000*	Total *HK$'000*
At 1 January 2007	2,205	—	—	2,205
Credited to consolidated income statement	(2,205)	—	—	(2,205)
At 31 December 2007 and 1 January 2008	—	—	—	—
Fair value adjustment from acquisition of subsidiaries	—	—	44,754	44,754
Issue of convertible bond	—	644	—	644
Credited to consolidated income statement	—	(156)	(559)	(715)
At 31 December 2008	—	488	44,195	44,683

At the balance sheet date, the following tax losses and temporary differences of the Group have not been recognised due to the unpredictability of future profit streams:

	2008 *HK$'000*	2007 *HK$'000*
Tax losses	—	608,768
Deductible temporary differences	—	13,007
	—	621,775

33. AMOUNT DUE TO HOLDING COMPANY

The amount is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

34. PROVISION FOR STAFF WELFARE AND BONUS

	2008	2007
	HK$'000	*HK$'000*
At the beginning of year	**67,889**	63,821
Utilisation of provision	**—**	(11)
Disposal of subsidiaries	**(72,112)**	—
Exchange realignment	**4,223**	4,079
At the end of year	**—**	67,889

Provision for staff welfare and bonus represents staff welfare and bonus provided in prior years for a subsidiary operated in the PRC under the relevant laws and regulations.

The total cost charged to income of HK$565,000 (2008: nil) represented contributions payable to these schemes by the Group for the year ended 31 December 2007.

35. CONVERTIBLE BOND

On 16 July 2008, the Company issued the convertible bond due on 15 July 2010 ("CB") with a principal amount of HK$50,000,000, which is interest-bearing at 5% per annum in arrears. The CB entitles Outwit, the ultimate holding company of the Company, to convert it into ordinary shares of the Company at anytime between the date of issue of the CB and 15 July 2010 at a conversion price of HK$0.3 per share.

The CB contains two components, liability and equity elements. The equity element is presented in equity heading convertible bonds reserve. The effective interest rate of the liability component is 4% per annum.

	HK$'000
Liability component	46,100
Interest expenses charged	2,196
At 31 December 2008	48,296

36. OTHER PAYABLE

The amount represented the amortised cost using the effective interest method of the amount payable in respect of the promissory note issued subsequent to the year end on 24 February 2009, as partial consideration for the acquisition of the entire share capital of Best Forward Group Limited as detailed in Note 39. The promissory note had a principal amount of HK$150,000,000, with a term of repayment of two years from 24 February 2009.

37. SHARE CAPITAL

	2008 and 2007 Ordinary shares of HK$0.01 each	
	Number of shares	**Amount**
	'000	*HK$'000*
Authorised		
Ordinary shares of HK$0.01 each	100,000,000	1,000,000
Issued and fully paid		
Ordinary shares of HK$0.01 each	1,073,934	10,739

38. SHARE OPTIONS

The Company adopted in 2002 a share option scheme (the "Share Option Scheme") of which the eligible participants include the Company's directors, employees of the Group and any advisors (professional or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group who the board of directors considers, at its sole discretion have contributed or will contribute to the Group. Unless otherwise terminated or amended, the Share Option Scheme remains in force to 16 May 2012.

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

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

38. SHARE OPTIONS *(Continued)*

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

No share options had been granted to directors or employees for both years ended 31 December 2008 and 2007.

39. ACQUISITION OF SUBSIDIARIES

Acquisition of 100% equity interest in Best Forward Group Limited

On 16 July 2008, the Group acquired 100% equity interest in Best Forward Group Limited at a consideration of HK$200,000,000 from Long Smart Investments Limited. This acquisition has been accounted for using purchase method. The amount of negative goodwill arising as a result of the acquisition was approximately HK$22,181,000.

The acquisition contributed revenue of approximately HK$236,585,000 and profit of HK$12,659,000 attributable to the equity holders of the Company for the period from the date of completion to 31 December 2008. If the acquisition were completed on 1 January 2008, the acquisition would have contributed revenue of HK$496,366,000 and profit of HK$31,794,000 attributable to the equity holders of the Company for the year ended 31 December 2008. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

For details, please refer to the circular of the Company dated 23 June 2008.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of 100% equity interest in Best Forward Group Limited *(Continued)*

The net assets acquired in the transaction and the excess of fair value of net assets acquired in the transaction over the cost of acquisition are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000 (Note 1)	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	122,405		122,405
Interests in leasehold land held for own use under operating leases	84,879	124,241	209,120
Intangible assets	1,744		1,744
Available-for-sale financial assets	21,477		21,477
Inventories	51,965		51,965
Trade and other receivables	96,052		96,052
Amount due from a former holding company	47		47
Bank balances and cash	56,329		56,329
Trade and other payables	(140,320)		(140,320)
Tax payable	(1,803)		(1,803)
Deferred taxation	—	(44,754)	(44,754)
Bank loans — secured	(95,552)		(95,552)
	197,223	79,487	276,710
Minority interests			(80,903)
Negative goodwill arising on acquisition			(22,181)
			173,626
Satisfied by			
Convertible bond			50,000
Promissory note *(Note 2)*			123,626
			173,626
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			56,329

Note 1: The professional valuation of interests in leasehold land held for own use under operating leases and properties were performed by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer in Hong Kong.

The fair value of the interests in leasehold land held for own use under operating leases and properties are using the open market basis by reference to recent transactions.

Note 2: As part of the consideration for the acquisition, promissory note of HK$150,000,000 was issued on 24 February 2009. The fair value of the promissory note of the Company determined using amortised cost method is approximately HK$ 112,506,000 on 24 February 2009.

40. DISPOSAL OF SUBSIDIARIES

Disposal of 100% equity interest in Bright Strong Profits Limited

On 17 July 2008, the Group disposed of the entire equity interest in Bright Strong Profits Limited. For the period from 1 January 2008 to the date of completion, Bright Strong Profits Limited contributed turnover of approximately HK$33,297,000 and loss of approximately HK$11,714,000 to the Group from its operations.

For details, please refer to the circular of the Company dated 23 June 2008.

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	36,187
Interests in leasehold land held for own use under operating leases	4,772
Investment properties	72,885
Interests in associates	4,808
Trade and other receivables	17,155
Inventories	11,914
Bank balances and cash	32,540
Trade and other payables	(60,259)
Bank loans — secured	(64,464)
Other loan — secured	(21,423)
Provision for staff welfare & bonus	(72,112)
	(37,997)
Minority interests	(1,049)
Realisation of translation reserve	69,959
Loss on disposal	(29,913)
Cash consideration	1,000
Net cash outflow arising on disposal:	
Cash consideration	1,000
Bank balances and cash disposed of	(32,540)
	(31,540)

The disposed group contributed approximately cash outflow of HK$13,000,000 and HK$30,000,000 in respect of operating and financing activities for the year ended 31 December 2008.

41. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

Except disclosed in these consolidated financial statements, the Group has the following significant related party transactions during the year:

(i) On 16 July 2008, the Company completed the acquisition of the entire issued share capital of Best Forward Group Limited from Long Smart Investments Limited ("Long Smart") which is wholly owned by Outwit. The consideration of HK$200,000,000 was paid in manner in following manners:

— HK$150,000,000, by the issuance of promissory note of the Company to Long Smart;

— HK$50,000,000, by the issuance of convertible bond of the Company to Long Smart.

(ii) On 28 November 2008, the Company completed the acquisition of the 52% equity interests in Wuhan Wuda Hongyuan Company Limited from Wuhan Donghu Innovation and High Tech Investments Limited, a substantial shareholder of a subsidiary of the Company. The consideration is approximately HK$35,454,000 (Note 21).

(iii) Sales to Guangzhou Apollo Enterprise Company Limited, a former associate of the Company of approximately HK$14,594,000 (2007: approximately HK$32,430,000).

(b) Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	**1,884**	1,361
Post-employment benefits	**22**	96
	1,906	1,457

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

42. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**73**	602
In the second to fifth years inclusive	**—**	109
	73	711

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

The Group as lessor

Rental income earned during the year was approximately HK$4,398,000 (2007: approximately HK$7,790,000). The investment properties was disposed of through the disposal of subsidiaries during the year.

	2008	2007
	HK$'000	*HK$'000*
Within one year	**—**	5,962
In the second to fifth years inclusive	**—**	8,161
Over five years	**—**	510
	—	14,633

42. COMMITMENTS *(Continued)*

(b) Capital commitment

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidation financial statements	**1,004**	—
Capital expenditure in respect of the acquisition of property, plant and equipment authorised for but not contracted for	**1,442**	—

43. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the general bank loans granted to the Group:

	2008	2007
	HK$'000	*HK$'000*
Interests in leasehold land held for own use under operating leases	**179,625**	2,716
Buildings	**51,895**	21,736
Bank deposit	**4,574**	—
Investment properties	**—**	64,198
	236,094	88,650

44. CONTINGENT LIABILITIES

(a) According to the summons received by the Company on 4 August 2005, a claimant (the "Claimant") alleged that there was an unpaid balance of payment amounted to approximately HK$2,000,000 against the former director, Ms. Lo Yuk Yee ("Ms. Lo") and a related company beneficially owned by Ms. Lo in relation to an agreement dated 14 April 2004 made amongst Ms. Lo, the related company and the Claimant, and alleged the Company made misrepresentation and made a claim against the Company for damages.

The Company has not received any further notice in respect of the claim against the Company as at and for the year ended 31 December 2006, the directors believed that the alleged claim against the Company is unsubstantiated and there would be no significant impact to the operation and financial position of the Group. Accordingly, no provision has been made in these financial statements in prior years. As at the year ended 31 December 2008 and up to the date of this report, there had been no further progress in respect of the above claim.

(b) Wuhan Grand Pharmaceutical Group Company Limited has issued a guarantee to a bank in respect of bank facilities granted to Wuhan Wuda Hongyuan Company Limited, an associate of the Group as at 31 December 2008, of RMB 12,000,000 (approximately HK$13,636,000). The associate drew down the bank loan of RMB 10,000,000 (approximately HK$11,364,000).

The fair value of guarantee at the balance sheet date is not material and is not recognised in the consolidated financial statements.

45. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date is as follows:

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Investments in subsidiaries	(a)	**200,000**	—
Current assets			
Trade and other receivables		**376**	344
Cash and cash equivalents		**9**	8
		385	352
Current liabilities			
Trade and other payables		**3,310**	1,430
Amounts due to subsidiaries		**—**	2,408
		3,310	3,838
Net current liabilities		**(2,925)**	(3,486)
Total assets less current liabilities		**197,075**	(3,486)
Non-current liabilities			
Deferred taxation		**488**	—
Amount due to holding company		**19,951**	13,408
Convertible bond		**48,296**	—
Other payable		**128,191**	—
		196,926	13,408
Net assets (liabilities)		**149**	(16,894)
Capital and reserves			
Share capital		**10,739**	10,739
Reserves	(b)	**(10,590)**	(27,633)
		149	(16,894)

45. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

(a) Investments in subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**200,000**	25,902
Impairment loss recognised	**—**	(25,902)
	200,000	—
Amounts due from subsidiaries	**—**	6,478
Impairment losses recognised	**—**	(6,478)
	—	—
Amounts due to subsidiaries	**—**	2,408

The balances with subsidiaries were unsecured, interest-free and the subsidiaries were disposed of during the year ended 31 December 2008.

The following is a list of principal subsidiaries of the Company as at 31 December 2008:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held	Particulars of issued/paid-up capital	Principal activities
Wuhan Grand Pharmaceutical Group Company Limited	PRC/PRC	Limited liability company	70.98%	Paid-up capital RMB85,000,000	Manufacturing and supplying pharmaceutical products in the PRC
Wuhan Wuyao Pharmaceutical Company Limited	PRC/PRC	Limited liability company	70.06%	Contributed capital RMB31,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products

Note:

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

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

45. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

(b) Reserves of the company

	Share premium HK$'000	Convertible bond reserve HK$'000	Contributed surplus HK$'000	Accumulated Losses HK$'000	Total HK$'000
At 1 January 2007	94,457	—	141,783	(242,017)	(5,777)
Loss for the year	—	—	—	(21,856)	(21,856)
At 31 December 2007 and at 1 January 2008	94,457	—	141,783	(263,873)	(27,633)
Equity component of convertible bond	—	3,900	—	—	3,900
Deferred tax arising on issue of convertible bond	—	(644)	—	—	(644)
Profit for the year	—	—	—	13,787	13,787
At 31 December 2008	94,457	3,256	141,783	(250,086)	(10,590)

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

Profit attributable to shareholders includes an amount of approximately HK$13,787,000 (2007: loss of HK$21,856,000) which has been dealt with in the consolidated financial statements of the Company.

46. POST BALANCE SHEET EVENT

Subsequent to 31 December 2008, the promissory note, as explained in Note 36 and pursuant to the circular issued by the Company dated 23 June 2008, was issued on 24 February 2009. The fair value of the promissory note determined using amortised cost method is approximately HK$112,506,000 as at 24 February 2009.

47. COMPARATIVE FIGURES

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

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**269,882**	49,045	42,408	46,384	63,162
Loss before tax	**(20,721)**	(56,090)	(12,186)	(108,804)	(156,504)
Income tax	**4**	2,205	245	—	—
Loss for the year	**(20,717)**	(53,885)	(11,941)	(108,804)	(156,504)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**569,891**	198,699	219,876	197,400	269,265
Total liabilities	**(480,933)**	(240,542)	(207,956)	(174,695)	(217,559)
Net assets (liabilities)	**88,958**	(41,843)	11,920	22,705	51,706