Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 587)

2009/2010 Annual Report

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in traditional Chinese medicine (including mainly gynecological medicine) as well as bio-pharmaceutical products and bio-technology in the People's Republic of China.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Peter Y. *(Chairman)*
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Zhou Chong Ke

Non-Executive Directors
Mr. Wee Ee Lim
(Mr. Chng Hwee Hong as his alternative)
Mr. Tarn Sien Hao

Independent Non-executive Directors
Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew

AUDIT COMMITTEE

Mr. Hon Yiu Ming, Matthew
(Chairman of audit committee)
Professor Tso Wung Wai
Professor Kung Hsiang Fu
Mr. Tarn Sien Hao

REMUNERATION COMMITTEE

Mr. Hon Yiu Ming, Matthew
(Chairman of remuneration committee)
Professor Tso Wung Wai
Professor Kung Hsiang Fu
Mr. Deng Jie
Mr. Wee Ee Lim
(Mr. Chng Hwee Hong as his alternative)

COMPANY SECRETARY

Mr. Wong Ming Chun
(CPA, ACCA, ACS, ACIS, CFA)

REGISTERED OFFICE

Cricket Square,
Hutchins Drive
P.O. Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3405, 34th Floor
China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

Bank of China
Guiyang Branch, Jiaxiu Sub-branch

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place,
Central
Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants
43th Floor, The Lee Gardens,
33 Hysan Avenue, Causeway Bay,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

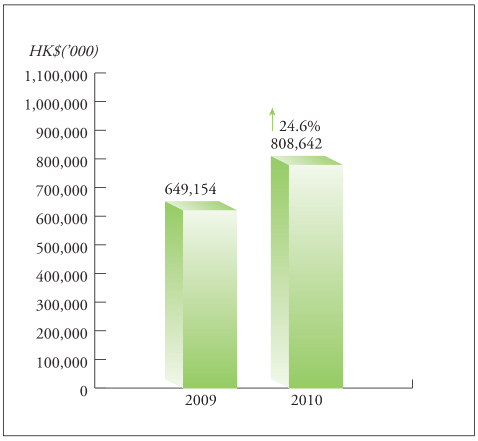
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen’s Road East, Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

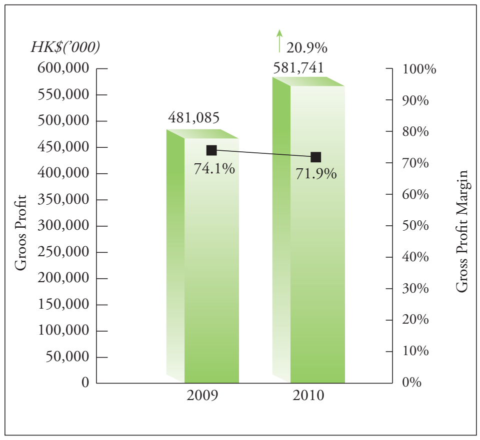
KEY FINANCIALS

	2010 *HK$'000*	2009 *HK$'000*	% Change
Turnover	**808,642**	649,154	↑ 24.6%
• Traditional Chinese medicines (including mainly gynecological medicine)	**590,868**	529,580	↑ 11.6%
• Bio-pharmaceutical products and bio-technology	**217,774**	119,574	↑ 82.1%
Profit attributable to owners of the Company	**265,300**	147,853	↑ 79.4%
Earnings per shares (HK cents)			
Basic	**19.34**	13.92	↑ 38.9%
Diluted	**18.84**	13.92	↑ 35.3%
Gearing ratio (%)	**2.1**	4.4	↓ 52.3%
Net Cash	**1,351,010**	647,415	↑ 108.7%

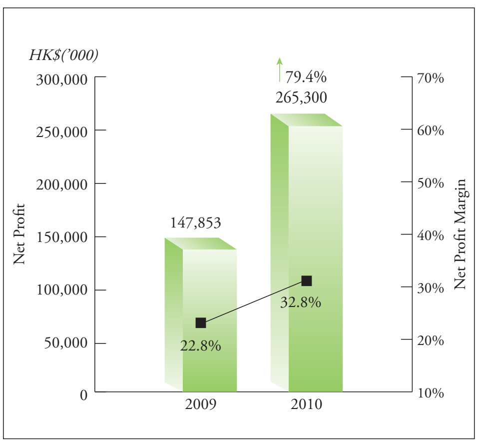
TURNOVER



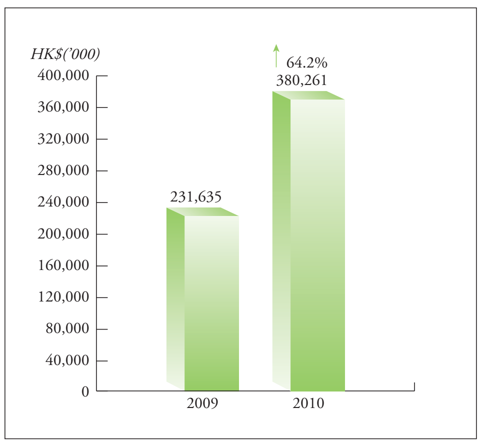
GROSS PROFIT



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY



EBITDA

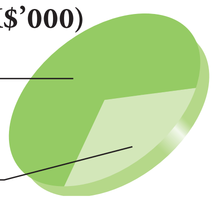


TURNOVER

2010 (figures below are in HK$'000)

590,868 **(73%)**

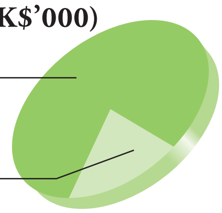
217,774 **(27%)**



2009 (figures below are in HK$'000)

529,580 **(82%)**

119,574 **(18%)**



Traditional Chinese medicines (including mainly gynecological medicine)

Bio-pharmaceutical products and bio-technology

CHAIRMAN'S STATEMENT

On behalf of the board of directors ("**Board**") of Hua Han Bio-Pharmaceutical Holdings Limited ("**Hua Han**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual results of the Group for the year ended 30 June 2010 ("**Year**").

BUSINESS REVIEW

Guiyang De Chang Xiang Pharmaceutical Company Limited

Guizhou Hanfang Medicine Manufacture Co. Ltd.

During the Year, the results of the Group continued to report a satisfactory growth. Turnover for the year ended 30 June 2010 amounted to approximately HK$808.6 million, representing a growth of 24.6% as compared with HK$649.2 million in the preceding year. Profit attributable to owners of the Company amounted to approximately HK$265.3 million. Such growth was mainly attributable to the rapid increase in the sales of bio-pharmaceutical medicines of the Group as well as the Group's other drugs listed in the Catalogue of Drugs for Basic National Medical Insurance and the National Essential Drugs Catalogue. It was also due to the further integration and application of enterprise resources under the Group and sustained enhancement in operational efficiency. Gains on investments were also increased as a result of the rapid development of "**Magic**（**美即**）".

GOAL AND STRATEGY

Prescription Drugs

Yeosure Series

Anti-tumour Medicines

The Group is committed to human health business, aiming at manufacturing those products and technology with safer quality, more evident in efficacy and more thorough in treatment. These products will be supplied endlessly to meet patient needs and clinical demand.

The Group's strategy: to build up the core competitiveness based on overall strengths. We maintained a rapid and steady development momentum through the continuous implementation of the established product differentiation and forward-looking strategies. Through concentrated and careful deployment of efforts, we consolidated and enhanced the market share of traditional Chinese medicines mainly focusing on gynecological medicines. Through increasing our investments in biological medicines and technology, we maintained our sound strategic leading position and accordingly, led to form a new, stable and abundant profit growth point of the Group at present and in the future. Through internal resources integration and process reengineering, we increased our pace in market response and improved operation efficiency and reduced our costs. Through incorporating the Group's development into the national medicine industry plan and actively regulating the Group's market behavior, we obtained strong support from the government and relevant administration departments, and thus established a better environment for the development and expansion of the Group.

CHAIRMAN'S STATEMENT

PROSPECTS

Looking forward, under those factors like continuous buoyant economic growth in PRC, increasing input of resources into medical care by the State, expedition in urbanization process, aging population and greater awareness in health and medication, domestic pharmaceutical demand will maintain its growing trend. It is expected that from 2010 to 2019, the annual compound growth rate in the PRC pharmaceutical industry will be not less than 20.8%, and it is believed that the next decade will be "**Golden Decade**" for the PRC pharmaceutical market.

OTC Drugs

Fuke Zaizaowan & Fuke Zaizao capsules

As striving to become a leading enterprise manufacturing and sales of traditional Chinese medicine mainly specialising gynecological pharmaceutical products and newly emerging bio-pharmaceutical medicines in PRC, our targets are to share the returns of high growth of pharmaceutical market in PRC, and become a highly competitive pharmaceutical group with unique and innovative products, technologies, and comprehensive marketing network in the PRC pharmaceutical market.

Bio-pharmaceutical products

"Yi Fu" and "Yi Bei"

The Board and I have great confidence in the Group's future development. As always, we will adhere to our designated strategy and continue to recruit high-caliber talents to strengthen our professional management team, develop a professional operation management model, and work with other leading pharmaceutical enterprises with more open-minded mentality and create a fabulous future together. The Group is confident and capable of resolving all kinds of difficulties and challenges. We will grasp the emerging opportunities and strive to achieve fast growth rate, bringing long-lasting and maximum value to our shareholders.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all our staff, management, clients, business partners and shareholders for their contributions to the Group's development. We attribute the achievements of the Group to the great support from, and dedication and teamwork of, the parties mentioned above. We firmly believe that, by leveraging on global economic recovery and the sustainable and stable economic growth in PRC, the ongoing support from shareholders, and the substantial market capacity in PRC, we must be able to achieve the desired objectives.

Exclusive products registered in "National Essential Drugs Catalogue for Medical Insurance (2009 New Edition)"

"Qijiao Shengbai capsules" and "Zhisou Huatan pills"

Zhang Peter Y.
Chairman

Hong Kong
27 October 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacture and sale of traditional Chinese medicine mainly specialising in gynecological pharmaceutical products and bio-pharmaceutical medicines and technologies in the People's Republic of China ("**PRC**" or "**China**"). By leveraging on the wide and fast development of pharmaceutical market in Mainland China during the reporting period, the Group capitalised on the existing internal operation resources previously established which include products, technologies, market, talents and management and continued to increase our market share to create greater returns for shareholders.

MARKET REVIEW

During the Year, the new national medical and health system reform is moving towards a comprehensive and in-depth development, with the "**new medical reform**" policies promoting in an accelerating pace. Following the publication of "**National Essential Drugs Catalogue (《國家基本藥物目錄》)**", the "**Catalogue of Drugs for Basic National Medical Insurance (《國家基本醫療保險藥品目錄》)**" was also issued by the end of last year. To suppress the pricing of drugs, the "**National Drug Price Control Measures (a draft for discussion) (《國家藥品價格管理辦法(徵求意見稿)》)**" was further promulgated in the first half of the Year. These policies have affected the PRC drug market significantly, demonstrating the government's control on the pharmaceutical market has moved from a macro-administrative approach down to its micro level, resulting new and greater challenges for the pharmaceutical enterprises. However, on the other hand, the PRC pharmaceutical market continued to maintain its rapid growth, both the total medicine consumption and usage grading achieved a significant increase as compared to previous years. It is certain that the expansion in size of domestic pharmaceutical market would last for a long period of time. The development potential of pharmaceutical industry is ever increasing.

It can be envisaged that with the sustained rapid development of the PRC economy and the thorough implementation of new medical reforms, the PRC pharmaceutical sector has entered into an unprecedented era entwined with great opportunities and big challenges. On one hand, being positioned at the hike of the "**Golden Decade**" currently, the pharmaceutical market is witnessing a fast-uprising Chinese pharmaceutical product consumption capabilities and drug utilisation level with tremendous and unlimited market potential. On the other hand, the multinational pharmaceutical giants, large state-owned enterprises and privately-owned pharmaceutical enterprises continue to increase their investments and strengthen their resources integration and to "**develop**" unmatchable products, aiming at gaining larger market share, thus leading to an intensified market competition. In addition, intervention by the PRC government on pharmaceutical market causes some uncertainties, which may in turn exerts impact to the development of pharmaceutical enterprises given a specific time and specific environment. Nevertheless, with the arrival of the great era of PRC pharmaceutical market, those enterprises with strong development prospects, with tier-strategies in keeping up with market development, unique product series and advanced technologies, strong and established nationwide end-user sales marketing network and excellent implementation capacity will eventually excel others in the market and become a conglomerate pharmaceutical enterprise based in PRC, growing stronger and stronger and heading towards international competition.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, under the background of the gradual implementation of domestic new medical reform policies and pharmaceutical market competition further intensified, the Group had adopted proactive measures to sustain a continuous and rapid growth for the Group's results. During the reporting period, the Group continued to focus on the critical areas of its designated development strategy, to vigorously develop bio-pharmaceutical medicines and technologies while keep the steady growth of traditional Chinese medicine mainly specialising gynecological pharmaceutical products, and new structure to support the Group's future development has been established. Meanwhile, the key points to estimate expenditure scientifically, to enforce stringent control in procurement and production costs, and to improve its operational management service standards, help achieve the rapid expansion of business scale and great growth of profits, which laid a solid foundation for the Company in sustaining a healthy and rapid development position.

FINANCIAL PERFORMANCE

During the Year, the Group's turnover was approximately HK$808.6 million, of which approximately HK$590.9 million (representing 73% of the Group's turnover) was derived from the turnover of traditional Chinese medicines (including mainly gynecological medicines); there is an approximately 11.6% increase over the corresponding period last year. Bio-pharmaceutical products and bio-technology recorded approximately HK$217.7 million in sales during the year, accounting for 27% of the total turnover of the Group and an approximately 82.1% increase over the corresponding period last year.

MARKET PERFORMANCE

During the Year, the Group mainly implemented its marketing strategy for its two biggest business sectors of traditional Chinese medicine mainly specialising gynecological pharmaceutical products and bio-pharmaceutical medicines. The Group had continued to enhance its sales and marketing efforts for its core products and increased the policy guarantee efforts of those core products under a professional and refined marketing management approach, market development for new products and integrated internal and external resources, and had basically reached its pre-determined targets.

On one hand, the Group continued to consolidate and expand the market for traditional Chinese medicine mainly specialising gynecological pharmaceutical products. As for hospital market, the Group paid more attention and used various measures to prolong the clinical useful life of its old products, to sustain the contribution of those old products to the cash flows and profits of the Company. At the same time, the Group grasped the good opportunity that its 73 products and specifications were registered in the "**National Essential Drugs Catalogue for Medical Insurance (2009 New Edition)（《2009年新版國家基本醫療保險藥物目錄》）**", and especially gave profound attention to its 4 exclusive products registered in the "**Catalogue**", namely "**Yi Fu（易孚）**", "**Yi Bei（易貝）**", "**Qijiao Shengbai Capsules（芪膠升白膠囊）**" and "**Zhisou Huatan Pills（止嗽化痰丸）**". The Group made elaborate designs, meticulous steps and important inputs for the above products, aiming at achieving rapid sales revenue growth so as to become the new growth point of the Group's prescription drugs.

On the other hand, by leveraging on the advantageous opportunities of the Group's 31 products registered in the "**National Essential Drugs Catalogue（《國家基本藥物目錄》）**", the Group strengthened the development of the markets in counties and municipal communities, and this business sector has growed to a certain extent. The business development of "**OTC**" drugs was speeded up and its market presence was further expanded. Through establishing our own sales network and assigning agents to distribute products on a synchronising basis, our market presence of "**Fuke Zaizaowan（婦科再造丸）**" series products had already expanded to 24 provinces throughout the nation, with an increase in number of retail point-of-sales and continuous enhancement in brand recognition.

RESEARCH AND DEVELOPMENT

The Group has determined that the core investment focus of our development strategy will be on bio-pharmaceutical products. In this regard, with our existing technology in "**Recombinant Human Epidermal Growth Factor（重組人表皮生長因子）**", the Group will continue to develop new drugs like "**Recombinant Human Epidermal Growth Factor Enteric-Coated Oral Liquid（重組人表皮生長因子腸溶口服液）**" and Capsules (intestines mucous membrane restoring liquid)（腸黏膜修復劑）, and the report for the pathological and toxicology experimental testing had already complete. We are preparing to declare and submit to the Center for Drug Evaluation, SFDA（國家食品藥品監督管理局藥品審評中心）for preliminary examination. The biopharmaceutical product "**Interferon-λ（干擾素-λ）**", a new type of immunisation biological medicine, had completed its pre-clinical pathological and toxicology experimental testing. At the same time, according to the functions of human placenta and cord blood, the Group is establishing a complete production and technology chain, which includes the "**Human Nerve Growing Factor Injection（人神經生長因子注射劑）**", "**Placenta Pills（人胎盤片）**", "**Placenta Tissue Fluid Injection（人胎盤組織液注射劑）**", "**Placenta Blood Albumin（人胎盤血白蛋白）**", "**Cord Blood Stem Cell Bank（臍血幹細胞庫）**" and "**Mesenchymal Stem Cell（間充質幹細胞）**", for the purpose of achieving to become a leading enterprise in the industry in PRC and international markets, in terms of technology, market, brand and quality.

In addition, in order to enhance our strengths in research and development, the Group established a "**Guizhou Province Stem Cell and Tissue Engineering Technology Research Centre (貴州省幹細胞與組織工程技術研究中心)**" associating with Affiliated Hospital of Zunyi Medical College (遵義醫學院附屬醫院), Guiyang Medical University (貴陽醫學院) and Shenzhen Beike Bio-Technology Company Ltd., (深圳北科生物技術有限公司). An approval was obtained from the Guizhou Science and Technology Bureau (貴州省科技廳).

PRODUCTION FACILITIES CONSTRUCTION

The construction of high-tech bio-pharmaceutical production plant of approximately 10,000 square meters for the Group's bio-pharmaceutical product – the State category one new biological medicine "**Human Nerve Growing Factor Injection (人神經生長因子注射液)**" was completed with a production capacity of 3 million injections per annum. It had already obtained the "**Production License for Drug Manufacturing Enterprises**" from Guizhou Province Food and Drug Administration (貴州省食品藥品監督管理局). The Group will endeavor to obtain the GMP certification from the State Food and Drug Administration (國家食品藥品監督管理局) as soon as possible to ensure that the products would soon be launched into production and sales to generate benefits.

During the Year, the Group had completed the plan design of the production plant of new medicine "**Placenta Blood Albumin (人胎盤血白蛋白)**", planned to set up an internationally advanced production line for "**Placenta Blood Albumin (人胎盤血白蛋白)**" and a respective supply chain for placenta and cord blood collection in Guizhou province with a gross floor area of approximately 30,000 square meters. The construction of such production plant is in progress.

INVESTMENT AND MERGER

Magic Holdings International Limited is an investing enterprise of the Group. The market share of the "**Magic (美即)**" series products is continuing to expand and has all along been maintaining its leading position well in the domestic facial masks. During this financial year, its result continues to grow rapidly with its brand recognition and reputation gaining wide recognition in the market. The Group had spun-off its operations through the successful separate listing at Hong Kong Stock Exchange, paving more extensive room for its development, with the Group achieving greater gains eventually.

In order to better develop bio-pharmaceutical products and technologies and obtain greater benefits, the Group increased its equity interests in Guilin Pavay Gene Pharmaceutical Co., Ltd., ("**Guilin Pavay**"), its member company by acquiring 13% additional equity interests of Guilin Pavay with the shareholding percentage in Guilin Pavay held by the Group reaching 65% after the acquisition.

PROSPECTS

The relevant data show that the PRC has become the world's seventh largest drugs market in 2009, and experts have predicted that the PRC would become the world's sixth largest drugs market in 2010 and surpasses Japan to become the world's second largest drugs market in 2020. It is certain that with the high-speed growth of pharmaceutical market in PRC, a number of outstanding and leading local pharmaceutical enterprises will emerge. Therefore, our continuing goal is to become a highly competitive pharmaceutical group in sharing the achievements of high-speed growth of the pharmaceutical market in PRC, become the enterprise with unique innovative products and technology in PRC pharmaceutical market and possess the comprehensive marketing network with abundant operation resources.

The Directors consider that, under the guidance of three-year leaping-forward development plan, the Group has further determined the overall development strategies for the next year. These strategies are to consolidate the channel and internal resources system, adapt to the industry and market changes brought by the "**new medical reform**"; to continue to capture the high-end market with innovative products, and utilize our traditional Chinese herbal products in exploring the low to medium end markets, aiming at making breakthrough to expand the market shares of our products in the two most profitable and fastest growing markets continuously; to adjust our product mix and marketing strategies and attentively expand our important branded product categories; establish a national and global leading products and technologies chain in respect of technology, market, brand and quality in the area of biology subdivision, aiming at forming our sustainable competitiveness based on innovative pharmaceutical products.

In next financial year, the Directors believe that the following four aspects will bring considerable returns to the Group:

1. Our 73 products and specifications registered in the "**National Essential Drugs Catalogue for Medical Insurance (2009 New Edition) (《2009年新版國家基本醫療保險藥物目錄》)**", especially the 4 exclusive products namely "**Yi Fu (易孚)**", "**Yi Bei (易貝)**", "**Qijiao Shengbai Capsules (芪膠升白膠囊)**" and "**Zhisou Huatan Pills (止嗽化痰丸)**", are of enormous growing potential and will greatly motivate the sales of our prescription drugs;

2. Our 31 products registered in "**National Essential Drugs Catalogue (《國家基本藥物目錄》)**" have stronger brand and quality advantages in the country, especially in the south-western region. With the strengthening of the market development efforts in counties and municipal communities, this business segment will pursue for considerable growth;

3. Represented by "**Fuke Zaizaowan (婦科再造丸)**", our series of "**OTC**" drugs will realise a continuous enhancement in brand recognition through intensifying efforts in advertising, especially in the nation-wide television commercials. The business development of our "**OTC**" drugs will be accelerated and its market presence will be further expanded, thereby improving the results of our "**OTC**" drugs; and

4. We endeavor to launch the products like "**Human Nerve Growing Factor Injection（人神經生長因子注射液）**" and "**Placenta Pills（人胎盤片）**" into the market as soon as possible so as to make a breakthrough in growth for the Group.

In general, the next year is an important year of our three-year leaping-forward development span with strenuous working tasks. Therefore, we will fully leverage on and utilise our competitive edge, take pro-active move, continue to be innovative, strive for further development, and endeavour our efforts. At the same time, we will adopt a prudent approach in view of real-life situation, protect ourselves against risks, maintain a stable development momentum and strive to reward our shareholders with excellent business performance.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 30 June 2010, the Group had unpledged cash and bank balances of approximately HK$1,406.5 million (2009: approximately HK$719.4 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 2.1% (2009: approximately 4.4%). Net current assets was approximately HK$2,256.2 million (2009: approximately HK$1,053.4 million) and the current ratio was maintained at the healthy level of approximately 9.0 (2009: approximately 5.7) as at 30 June 2010.

The finance costs of the Group for the Year amounted to approximately HK$4.0 million (2009: approximately HK$19.7 million), representing approximately 0.5% (2009: approximately 3.0%) of the Group's total turnover and a decrease of approximately HK$15.7 million over last year. The decrease in finance costs was principally due to decrease in bank loans.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any material contingent liabilities (2009: Nil).

BANK BORROWINGS

As at 30 June 2010, the Group had outstanding bank loans of approximately HK$55.5 million from the banks in the PRC (2009: approximately HK$72.0 million), 100% (2009: approximately 97.0%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 30 June 2010, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain prepaid land lease payments and buildings of the Group; and (iii) corporate guarantees executed by certain subsidiaries of the Company.

SEASONAL OR CYCLICAL FACTORS

During the Year, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group mainly generated revenue and incurred costs in Renminbi. The exchange rate for Renminbi did not fluctuate materially during the Year. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Year, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

COMMITMENTS

As at 30 June 2010, the Group had contracted commitments of HK$140.5 million (2009: HK$34.0 million), HK$16.0 million (2009: HK$15.8 million) and HK$27.2 million (2009: nil) in respect of purchases of technical knowhow/patent, construction of property, plant and equipment and acquisition of additional interest in a subsidiary, respectively.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2010, the continuing business of Group had a total of 1,270 employees (2009: 1,395), of whom 1,261 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Year, staff costs under continuing business of the Group (including Directors' remunerations and excluding share-based payments) amounted to approximately HK$35,288,000 (2009: approximately HK$44,878,000). Staff costs under continuing business of the Group accounted for 4.4% of the Group's turnover (2009: 6.9%) during the Year. The Group participates in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Year.

FINAL DIVIDEND AND BONUS ISSUE

The Directors recommended the payment of a final dividend of HK3 cents per share of the Company ("**Share**") for the Year (2009: HK2.8 cents) totalling approximately HK$48,070,000, and a bonus issue of shares on the basis of one new ordinary share for every five existing ordinary shares held to the shareholders of the Company whose shares are on the register of members on 17 December 2010, subject to the approval of the shareholders of the Company in the Company's forthcoming annual general meeting, and if passed, the final dividend and share certificate of the bonus issue share will be paid and posted respectively on Friday, 7 January 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (張岳), aged 48, is the Chairman of the Company and one of the founders of the Group. Mr. Zhang graduated from Guiyang Teacher Training College (貴陽師範學院) in 1982 with a Bachelor Degree in Chemistry. Mr. Zhang has been appointed as a standing member of the Fifth Chinese People's Political Consultative Conference in Yunyan District of Guiyang City (貴陽市雲岩區第五屆政協常委). In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Zhang was awarded the title of 1998-2002 Guiyang City Young and Middle-aged Technological Leader (貴陽市一九九八至二零零二年度中青年科技骨幹) in 2000. Given his expertise in the area of chemistry and his extensive knowledge in the pharmaceutical industry, Mr. Zhang is in charge of the Group's overall strategic planning. With more than 20 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's strategic management, financial planning and control. Mr. Zhang is a controlling Shareholder and a director of Bull's-Eye Limited, a controlling Shareholder of the Company.

Mr. Deng Jie (鄧杰), aged 46, is the Chief Executive Officer and an executive Director of the Company, and one of the founders of the Group. Mr. Deng graduated from Peking University (北京大學) in 1985 with a Bachelor Degree in Law. Mr. Deng was given the award of Outstanding Young Entrepreneur of the State (全國優秀青年企業家) and Top Ten Outstanding Youths in Guizhou (貴州省十大傑出青年) in 1993 and 1994 respectively, and was appointed as a member of the Eighth and the Ninth Chinese People's Political Consultative Conference in Guizhou (貴州省第八屆及第九屆政協委員) since 1998. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. He has over 10 years of experience in corporate management, and is responsible for the Group's strategic management and operation management. Over the past years or so, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team. Mr. Deng is a director of Bull's-Eye Limited, a controlling Shareholder of the Company.

Mr. Long Xian Feng (龍險峰), aged 48, is the General Manager of the Group and an executive Director of the Company. Mr. Long graduated from Peking University (北京大學) in 1985 with a Bachelor Degree in Law. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Long joined the Group in 1993 and is responsible for the Group's research and development of new products. Since joining the Group, Mr. Long has led the Group to successfully developing and introducing many pharmaceutical products. Mr. Long is responsible for the operations of the Group's businesses in the PRC.

Mr. Zhou Chong Ke (周崇科), aged 49, is an executive Director of the Company. Mr. Zhou graduated from Guiyang Medical University (貴陽醫學院) in 1983 with a Bachelor Degree in Medicine. He also has a postgraduate degree certificate in Psychiatry Medicine from West China University of Medical Sciences (華西醫科大學精神醫學系). He joined the Group in 2007 and is responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group. Prior to joining the Group, he has assumed senior positions in certain renowned pharmaceutical companies in PRC. With his excellent industry background, apart from primarily responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group currently, Mr. Zhou is also responsible to assist the Chief Executive Officer the operation of external merger and acquisition projects and maintains the close relationships among the Group and its strategic partners (including the research institutes).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Wee Ee Lim（黃一林）, aged 49, a non-executive Director of the Company. Mr. Wee holds a Bachelor of Arts (Economics) Degree from Clark University in U.S.A. He is the President and Chief Executive Officer of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He also holds directorships of various public listed companies namely, United Industrial Corporation Limited, Singapore Land Limited and UOL Group Limited and Hotel Plaza Limited, as well as a board member of Sentosa Development Corporation. He joined the Group in 2005.

Mr. Tarn Sien Hao（譚顯浩）, aged 43, a non-executive Director of the Company. Mr. Tarn holds a Bachelor of Science Degree from Columbia University, a Bachelor of Arts Degree from the State University of New York and a Master of Business Administration Degree from the University of Dubuque. He is the General Manager (Corporate Development) of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He joined the Group in 2005.

Mr. Chng Hwee Hong（莊輝煌）, aged 60, was appointed as an alternate director to Mr. Wee Ee Lim. Mr. Chng holds a Bachelor of Science (Hons.) in Applied Chemistry and a Diploma in Business Administration from the University of Singapore. He is an executive director of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He joined the Group in 2006.

Independent Non-Executive Directors

Professor Kung Hsiang Fu（孔祥復）, aged 68, is an independent non-executive Director of the Company. Professor Kung is an academician（院士）of the Chinese Academy of Sciences（中國科學院）. He has over 38 years of experience in medical research. During 1986-1998, he was the Chief of the Laboratory of Biochemical Physiology National Cancer Institute of the National Institute of Health in U.S.A. for 12 years. He has published over 300 scientific articles and is the inventor of a number of U.S. patents. Professor Kung has served as the director & chair professor of the Institute of Molecular Biology of the University of Hong Kong（香港大學）for 7 years since 1998. Currently, he is a Professor of Virology of the Centre of Emerging Infectious Diseases of the Chinese University of Hong Kong（香港中文大學）. He joined the Group in 2002.

Professor Tso Wung Wai（曹宏威）, aged 69, is an independent non-executive Director of the Company. Professor Tso holds a Doctorate Degree in Biochemistry from the University of Wisconsin-Madison in U.S.A. After his honorable retirement from teaching at the department of biochemistry of the Chinese University of Hong Kong（香港中文大學）for 24 years, Professor Tso is currently an adjunct professor of the department. Professor Tso's research interests include immobilized cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong Government for his meritorious public and community services. He joined the Group in 2002.

Mr. Hon Yiu Ming, Matthew (韓耀明), aged 50, is an independent non-executive Director of the Company. Mr. Hon graduated from the University of East Asia, Macau (澳門東亞大學) with a Master Degree in Business Administration. He is a Certified Public Accountant (Practicing) in Hong Kong and is now the sole-proprietor of Y. M. Hon & Co., a Hong Kong Certified Public Accountants firm. Mr. Hon is the Chairman of the Remuneration Committee and the Audit Committee of the Company. He joined the Group in 2004.

Senior Management

Mr. Wong Ming Chun (王名俊), aged 30, is the Company Secretary of the Company and the Financial Controller of the Group, and is responsible for the Group's financial management and internal auditing. He is a member of The Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, a member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a CFA charterholder of the CFA Institute. Mr. Wong graduated from The Hong Kong University of Science and Technology (香港科技大學) with a bachelor degree in Business Administration (major in Accounting). Mr. Wong has over 7 years of experience in auditing, accounting and financial management. He joined the Group in 2008.

Mr. Chen Lei (陳磊), aged 39, is the assistant to General Manager of the Group. Mr. Chen graduated from Jiangxi University of Finance and Economics (江西財經大學) in 1995 with a Bachelor Degree in Accounting. He was awarded the Master of Business Administration in Executive Management by Royal Roads University of Canada in 2009. He joined the Group in 2002 and is currently responsible for assisting the Group's General Manager in financial management of the operations in Mainland China. Mr. Chen is an executive director of Magic Holdings International Limited, a public company listed on the Main Board of the Stock Exchange.

Mr. Zhang Jin Yi (張勁翼), aged 48, is the Chairman of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Zhang graduated from Northwestern Polytechnical University (西北工業大學) in 1984 with a Bachelor Degree in Engineering and acquired the title of senior engineer. He joined the Group in 2004 and is responsible for the production management functions for Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Zou Bangyin (鄒邦銀), aged 35, is the Chief Engineer of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Zou graduated from Beijing Institute of Technology (北京理工大學) and obtained a Bachelor Degree in Engineering in 1999. He joined the Group in 1999 and is responsible for product research and development functions and the technical works relating to existing products of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Ms. Cheng Hui (程慧), aged 39, is the General Manager of Guizhou Hanfang Guomei Pharmaceutical Company Limited (貴州漢方國美醫藥有限公司). Ms. Cheng graduated from Guizhou College of Finance and Economics (貴州財經學院) in 1995 with a certificate in diploma in sales & marketing. Later, she obtained a graduate diploma from the School of Jiangxi Finance and Economics (江西財經學院), and a postgraduate diploma in business administration from Beihang University (北京航天航空大學). She joined the Group in 1995 and is responsible for the operating functions of Guizhou Hanfang Guomei Pharmaceutical Company Limited (貴州漢方國美醫藥有限公司).

Mr. Lu Guangbin（呂廣斌）, aged 35, is the President of Sales Division One of Guizhou Hanfang Guomei Pharmaceutical Company Limited（貴州漢方國美醫藥有限公司）. Mr. Lu graduated from Southwest Agricultural University（西南農業大學）and obtained a Bachelor Degree in Agriculture in 1998. He joined the Group in 1998 and is responsible for the hospital sales function of Guizhou Hanfang Guomei Pharmaceutical Company Limited（貴州漢方國美醫藥有限公司）.

Mr. Zhang Kun Mou（張昆謀）, aged 47, is the General Manager of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Mr. Zhang graduated from Harbin Engineering University（哈爾濱工程大學）(formerly known as Harbin Vessel Engineering College（哈爾濱船舶工程學院）) and obtained a Bachelor Degree in Engineering in 1984. In 1989, he graduated from Shanghai Donghua University（上海東華大學）(formerly known as China Textile University（中國紡織大學）), with a Master Degree in Engineering and served as a senior engineer. Mr. Zhang joined the Group in 2000 and is responsible for managing the production facilities of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Mr. Zhang is an executive director of Magic Holdings International Limited, a public company listed on the Main Board of the Stock Exchange.

Mr. Yao Qihong（姚啟弘）, aged 64, is the Deputy General Manager of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Mr. Yao graduated from Guizhou University of Technology（貴州工業大學）in 1968 with a Bachelor Degree in Engineering and served as an engineer. He joined the Group in 2006 and is responsible for the administration and co-ordination of external affairs of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Before joining the Group, he served in the Department of Foreign Trade & Economic Cooperation of Guizhou Provincial Government（貴州省政府對外經濟貿易廳）for 13 years. He was also a member of the Scientific Decision Expert Consultation Group（科技決策專家諮詢組）for Kaili City Government in Guizhou Province.

Mr. Dai Li Gui（戴禮貴）, aged 41, is the Marketing Director of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）and is responsible for the marketing functions of biological medicine. Mr. Dai graduated from Guiyang Medical College（貴陽醫學院）in 1992 with a Bachelor Degree in Medicine. In 2002, he attended a part-time master degree course in regard to Oncology and doctor's degree courses in regard to Oncology and Medical Consultation at the Western China University of Medical Science（華西醫科大學）. He is currently studying a doctorate degree course. Before joining the Group in 2000, Mr. Dai served the Pulmonary Hospital（肺科醫院）of Guiyang City as a clinician for 8 years.

Mr. Zhang Ming Jiang（張明江）, aged 46, is the Chief Engineer of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Mr. Zhang graduated from West China University of Medical Science（華西醫科大學）in 1986 and obtained a Bachelor Degree in Medicine. He joined the Group in 2007 and is responsible for the product research and development of drugs and GMP implementation works of Guizhou Factorr Bio-Technology Co., Ltd（貴州泛特爾生物技術有限公司）.

Mr. Yao Chang Fa（姚廠發）, aged 45, is the Chairman of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）. Mr. Yao graduated from Guiyang Chinese Medical College（貴陽中醫學院）in 1987 and acquired the professional qualification of principal Chinese medical practitioner in 1996. He joined the Group in 1992 and is responsible for the production management functions for Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）.

Ms. Jiang Xiao Wen（蔣曉文）, aged 51, is the General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）. Ms. Jiang graduated from Heilongjiang Business Institute（黑龍江商學院）in 1982 and acquired the title of Certified Pharmacist. She joined the Group in 2004 and was the General Manager of Guiyang Chinese Medicine Laboratory（貴陽中藥廠）(the predecessor of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）for a lengthy period of time and is responsible for the business operation of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）.

Mr. Ma Weidong（馬衛東）, aged 42, is the Deputy General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）. Mr. Ma graduated from Guiyang Chinese Medical College（貴陽中醫學院）in 1990, majoring in Pharmacy and acquiring the title of Certified Pharmacist. He joined the Group in 2004 and is responsible for the production technology and quality control of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）.

Mr. Yang Hong Ming（楊洪銘）, aged 46, is the Chairman of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）. Mr. Yang graduated from the Department of International Trade, University of International Business and Economics（對外經濟貿易大學）in 1985 with a bachelor degree in Economics. After graduation, Mr. Yang worked in the China Resources Group（中國華潤集團公司）and acquired the title of senior economist and was appointed as the standing committee member of the First and Second Chinese People's Political Consultative Conference in Guilin（桂林市第一、二屆政協常委）. Mr. Yang joined the Group in 2008 and is responsible for the strategic planning management and external relations of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）.

Wei Zhong Ming（韋忠銘）, aged 42, is the Vice General Manager of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）. Mr. Wei graduated from Nankai University（南開大學） in 1990 with a bachelor degree in Chemistry. After graduation, Mr. Wei worked in Guilin No. 3 Pharmaceutical Factory（桂林市第三製藥廠）, Guilin Medical University（桂林市醫學院）and Beijing Pilot Test Base of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司北京中試基地）. He is one of the major researchers and testers for the two State category one new medicines（國家一類新藥）of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）. Mr. Wei joined the Group in 2008 and is responsible for the production technology and quality control of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）.

REPORT OF THE DIRECTORS

The directors ("**Directors**") of Hua Han Bio-Pharmaceutical Holdings Limited (the "**Company**") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended 30 June 2010 ("**Year**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group include the manufacture and sale of pharmaceutical products, medicinal healthcare products for women and bio-pharmaceutical products. Details of the principal activities of the principal subsidiaries of the Company are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the state of affairs of the Company and of the Group at 30 June 2010 are set out in the financial statements on pages 38 to 129 of the annual report.

The Directors recommend the payment of a final dividend of HK3 cents per ordinary share of HK$0.10 each in the share capital of the Company ("**Share**") in respect of the Year, to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on 17 December 2010. The proposed dividend will be paid on or about 7 January 2011 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting ("**Annual General Meeting**") of the Company to be held on 17 December 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the statement of financial position.

The Directors also recommended a bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares held to the Shareholders whose names appear on the register of members on 17 December 2010, subject to the approval of the Shareholders in the Annual General Meeting. For further details of the bonus issue, please refer to the circular despatched to the Shareholders together with this report.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to the proposed final dividend and bonus issue share for the Year, the register of members will be closed from Wednesday, 15 December 2010 to Friday, 17 December 2010 (both days inclusive) during which period no transfer of Shares of the Company will be effected. In order to qualify for the proposed final dividend and the bonus issue shares, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 14 December 2010 for registration.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's published audited financial statements prepared on the basis set out therein, is set out on page 130 of this report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 19 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital during the Year and the details of share option scheme are respectively set out in notes 40 and 43 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 41(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$1,076,632,000 of which HK$48,070,000 has been proposed as a final dividend for the Year. The amount of HK$1,214,538,000 (note 41(b)) standing to the credit of the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Bian Shu Guang (Retired on 18 December 2009)
Mr. Zhou Chong Ke (Appointed on 7 April 2010)

Non-executive Directors:

Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*
Mr. Tarn Sien Hao

Independent non-executive Directors:

Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew

In accordance with the article 108(A) of the Company's articles of association, Mr. Deng Jie, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Deng Jie, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew being eligible, offers himself for re-election as Director at the forthcoming Annual General Meeting.

Mr. Zhou Chong Ke was appointed by the Board as an additional Director pursuant to article 112 of the Company's articles on 7 April 2010. He shall hold office only until the next following general meeting and shall then be eligible and will offer himself for re-election at the Annual General Meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors a written confirmation of his independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Rules (the "**Listing Rules**") governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 13 to 17 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhang Peter Y., Mr. Deng Jie and Mr. Long Xian Feng has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other. Mr. Zhou Chong Ke has entered into a service contract for an initial term of 36 months from 7 April 2010 to 6 April 2013, unless terminated by not less than three months notice in writing served by either party on the other.

The independent non-executive Directors and non-executive Directors are appointed for specific terms and are subject to retirement by rotation in accordance with the Company's articles of association.

No Director proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The board of Directors has the general power of determining the Directors' remuneration, subject to the authorisation of the Shareholders given at the annual general meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee. As for the non-executive Directors, their remuneration is determined by the board of Directors, upon recommendation of the Company's remuneration committee, with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those disclosed in note 45 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2010, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest *(Note 1)*	Approximate percentage of interest
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	455,466,174 Shares (L) *(Note 2a)*	28.43%
	The Company	Beneficial owner	1,300,000 Shares (L) *(Note 2b)*	0.08%
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("**GHXM**")	Interest of controlled corporation	5% (L) *(Note 3)*	5%
	The Company	Beneficial owner	1,300,000 Shares (L) *(Note 2b)*	0.08%
Mr. Long Xian Feng	The Company	Beneficial owner	13,000,000 Shares (L) *(Note 2b)*	0.81%

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest *(Note 1)*	Approximate percentage of interest
Mr. Zhou Chong Ke	The Company	Beneficial owner	10,000,000 Shares (L) *(Note 2b)*	0.62%
Professor Kung Hsiang Fu	The Company	Beneficial owner	988,000 Shares (L)	0.06%
Professor Tso Wung Wai	The Company	Beneficial owner	268,000 Shares (L)	0.02%
Mr. Hon Yiu Ming, Matthew	The Company	Beneficial owner	880,000 Shares (L)	0.05%

Notes:

1. The letter "L" represents the Director's interests in the Shares and underlying Shares or, as the case may be, the equity interest of the Company or its associated corporations.

2a. These 455,466,174 Shares were held by Bull's-Eye Limited ("**BEL**"), more than one-third of the issued share capital of which was beneficially owned by Mr. Zhang Peter Y.. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Zhang Peter Y. was deemed to be interested in all the Shares held by BEL.

2b. These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company. These options, all of which remained exercisable as at 30 June 2010, are exercisable at the subscription price of HK$0.98 per Share at any time during a period of two years commencing from and including 17 August 2009 to 16 August 2011.

3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("**GHKA**"), which is beneficially owned as to 95% by Mr. Deng Jie and as to the remaining 5% by Mr. Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Deng Jie was deemed to be interested in the equity interests in GHXM held by GHKA.

Save as disclosed above, as at 30 June 2010, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company operates a share option scheme ("**Scheme**"), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Scheme include the following:

(i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("**Invested Entity**") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);

(ii) any non-executive director (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

(viii) any company wholly-owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of Shares of the Company available for issue under the Scheme and any other share option scheme of the Group is 132,110,160, representing approximately 8.24% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 18 December 2009, being the date of the 2009 Annual General Meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

The maximum number of Shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive Director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors of the Company (excluding independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their respective associates, in excess of 0.1% of Shares of the Company in issue with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in 12-month period up to and including the date of grant, are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for Shares under the Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of:

(i) the closing price of Shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the Shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and

(iii) the nominal value of the Shares of the Company.

Subject to the earlier termination of the Scheme in accordance with the rules governing the Scheme, the Scheme will expire on 25 November 2012.

The share options exercised during the Year resulted in the issue of 16,500,000 ordinary Shares.

At the date of this report, the Company had 71,500,000 share options outstanding under the Scheme, which represented approximately 4.46% of the Company's Shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 71,500,000 additional ordinary Shares.

The following table sets out the details of the share options which were granted, exercised or outstanding under the Scheme during the Year:

Name or Category of participants	Number of share options: At 1 July 2009	Granted during the Year	Exercised during the Year	Cancelled or lapsed during the Year	At 30 June 2010	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$	Price of the Share at the date immediately proceeding the date of grant of options** HK$	Weighted average closing price of the Share before the date of exercise of options** HK$
Directors										
Executive										
Mr. Zhang Peter Y.	–	1,300,000	–	–	1,300,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	–
Mr. Deng Jie	–	1,300,000	–	–	1,300,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	–
Mr. Long Xian Feng	–	13,000,000	–	–	13,000,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	–
Mr. Zhou Chong Ke	–	10,000,000	–	–	10,000,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	–
Mr. Bian Shu Guang***	–	1,300,000	–	–	1,300,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	–
Non-executive										
Mr. Wee Ee Lim	–	1,300,000	(1,300,000)	–	–	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	1.66
Mr. Tarn Sien Hao	–	1,300,000	(1,300,000)	–	–	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	1.66
Independent non-executive										
Professor Kung Hsiang Fu	–	1,300,000	(1,300,000)	–	–	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	1.80
Professor Tso Wung Wai	–	1,300,000	(1,300,000)	–	–	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	1.80
Mr. Hon Yiu Ming, Matthew	–	1,300,000	(1,300,000)	–	–	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	1.80
	–	33,400,000	(6,500,000)	–	26,900,000					
Other employees****	–	54,600,000	(10,000,000)	–	44,600,000	17 August 2009	17 August 2009 to 16 August 2011	0.98	1.00	2.83
	–	88,000,000	(16,500,000)	–	71,500,000					

Notes:

* *Pursuant to the Scheme, the exercise price of the share option of HK$0.98 per Share is subject to adjustment in the case of capitalisation of profits or reserves, rights issue, consolidation, sub-division, reduction of the Company's share capital, or other similar changes in the Company's share capital.*

** *The price of the Shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date immediately preceding the date of the grant of the options. The weighted average closing price of the Company's Shares is the weighted average closing price of the Shares as quoted on the website of the Stock Exchange for the 5 days immediately preceding the date of the exercise of the share options.*

*** *Mr. Bian Shu Guang was a Director as at the date of grant of the share options. He retired as a Director by rotation at the annual general meeting of the Company held on 18 December 2009.*

**** *Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group.*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

After having made reasonable enquiry, the Directors are aware that as at 30 June 2010, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	**Number of Shares** *(Note 1)*	**Nature of interest**	**Approximate percentage of interest**
BEL *(Note 2)*	455,466,174 (L)	Beneficial owner	28.43%
Liu Yu *(Note 3)*	456,766,174 (L)	Interest of spouse	28.51%
Haw Par Pharmaceutical Holdings Pte. Ltd	277,898,600 (L)	Beneficial owner	17.34%
Haw Par Corporation Limited *(Note 4)*	277,898,600 (L)	Interest of controlled corporation	17.34%
Atlantis Investment Management Ltd.	144,000,000 (L)	Investment manager	8.99%

Name of shareholder	Number of Shares *(Note 1)*	Nature of interest	Approximate percentage of interest
Liu Yang *(Note 5)*	144,000,000 (L)	Interest of controlled corporation	8.98%
Kingston Finance Limited	238,000,000 (L)	Person having a security interest in Shares	14.85%
Amber Cheer Limited *(Note 6)*	238,000,000 (L)	Interest of controlled corporation	14.85%
Best Forth Limited *(Note 7)*	238,000,000 (L)	Interest of controlled corporation	14.85%
Chu Yuet Wah *(Note 8)*	238,000,000 (L)	Interest of controlled corporation	14.85%

Notes:

1. The letter "L" represents the person's or the entity's interests in Shares of the Company.

2. More than one-third of the issued share capital of BEL is beneficially owned by Mr. Zhang Peter Y.. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Mr. Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL. Mr. Zhang Peter Y. is a director of BEL.

3. Ms. Liu Yu is the wife of Mr. Zhang Peter Y., an executive Director, and is deemed to be interested in the Shares and underlying Shares in which Mr. Zhang Peter Y. is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance.

4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly-owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd. is interested.

5. Atlantis Investment Management Limited is owned as to 40% by Ms. Liu Yang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Ms. Liu Yang is deemed to be interested in all Shares in which Atlantis Investment Management Limited is deemed to be interested.

6. Kingston Finance Limited is owned as to 100% by Amber Cheer Limited. By virtue of the provisions of Division 2 and 3 of part XV of the SF Ordinance, Amber Cheer Limited is deemed to be interested in all Shares in which Kingston Finance Limited is deemed to be interested.

7. Amber Cheer Limited is owned as to 80% by Best Forth Limited. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Best Forth Limited is deemed to be interested in all Shares in which Amber Cheer Limited is deemed to be interested.

8. Best Forth Limited is owned as to 100% by Mrs. Chu Yuet Wah. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Mrs. Chu Yuet Wah is deemed to be interested in all Shares in which Best Forth Limited is deemed to be interested.

Save as disclosed above, as at 30 June 2010, no person, or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by public as at the date of this report.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the Year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Board has established an audit committee (the "**Committee**") in accordance with the requirements of the CG Code. The primary duties of the Committee include reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The existing members of the Committee are Mr. Tarn Sien Hao, a non-executive Director, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming Matthew, the three independent non-executive Directors. The Group's financial statements for the year have been reviewed by the Committee, which is of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 49 to the financial statements.

AUDITORS

The Company's financial statements for the year ended 30 June 2009 were audited by Ernst and Young. Shinewing (HK) CPA Limited ("SHINEWING") were appointed as auditor of the Company on 17 September 2010 in succession to Ernst and Young, who resigned from the office with effect from 25 August 2010. The Company's financial statements for the year ended 30 June 2010 were audited by SHINEWING.

SHINEWING will retire, and a resolution for their re-appointment as auditors of the Company will be proposed, at the forthcoming Annual General Meeting.

On behalf of the Board

Zhang Peter Y.
Chairman

Hong Kong
27 October 2010

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board ("**Board**") of directors (each a "**Director**") of the Company is committed to maintaining high standards of corporate governance and endeavours in following the code provisions ("**Code Provisions**") of the "Code on Corporate Governance Practices" ("**Code**") as set out in Appendix 14 to the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The Board has set up the remuneration committee of the Board ("**Remuneration Committee**") with written terms of reference prepared in accordance with the Code Provisions and has adopted a written set of terms of reference of the audit committee of the Board ("**Audit Committee**") which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year ended 30 June 2010 ("**Year**"), the Company has complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management during the Year.

BOARD OF DIRECTORS

The Board is currently composed of four executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Deng Jie as the chief executive officer, Mr. Long Xian Feng and Mr. Zhou Chong Ke; two non-executive Directors comprising Mr. Wee Ee Lim (Mr. Chng Hwee Hong as his alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 13 to 15 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each non-executive Director is appointed for a term of three years and each independent non-executive Director is appointed for a term of two years.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Apart from the regular board meetings, the Board met on other occasions when a board level decision on a particular matter was required. Each of the members of the Board has full access to relevant information at the meetings. During the Year, the Board has convened four board meetings and conducted the following activities:

(1) approved the interim and final results, interim and annual report, and matters to be considered at annual general meeting;

(2) discussed future business plans of the Group;

(3) approved the financial results and financial reports of the Company; and

(4) approved the spin-off and separate listing of a subsidiary of the Company.

Details of the Directors' attendance records at the board meetings during the Year are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y. *(Chairman)*	4/4
Mr. Deng Jie *(Chief Executive Officer)*	4/4
Mr. Long Xian Feng	4/4
Mr. Bian Shu Guang*	0/1
Mr. Zhou Chong Ke*	2/2
Non-executive Directors	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternative)*	4/4
Mr. Tarn Sien Hao	4/4
Independent non-executive Directors	
Professor Kung Hsiang Fu	4/4
Professor Tso Wung Wai	4/4
Mr. Hon Yiu Ming, Matthew	4/4

* *Mr. Bian Shu Guang retired as an executive Director at the annual general meeting of the Company held on 18 December 2009 and Mr. Zhou Chong Ke was appointed as an executive Director on 7 April 2010. By the reason of the above changes, Mr. Bian Shu Guang and Mr. Zhou Chong Ke did not participate in all regular board meetings held during the Year.*

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman of the Company and the chief executive officer of the Group are segregated and are not exercised by the same individual.

Both Mr. Zhang Peter Y. and Mr. Deng Jie are directors and beneficial shareholders of Bull's-Eye Limited, a controlling Shareholder of the Company. Save as disclosed, there are no other relationship among members of the Board.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors will be decided by the Board. They review regularly the need to appoint additional Directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as Directors.

Details of the Directors' attendance records at such Board meeting are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y.	1/1
Mr. Deng Jie	1/1
Mr. Long Xian Feng	1/1
Mr. Zhou Chong Ke *(Note)*	N/A
Non-executive Directors	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*	1/1
Mr. Tarn Sien Hao	1/1
Independent non-executive Directors	
Professor Kung Hsiang Fu	1/1
Professor Tso Wung Wai	1/1
Mr. Hon Yiu Ming, Matthew	1/1

Note:

Mr. Zhou Chong Ke was not yet a Director at the time of such meeting.

REMUNERATION COMMITTEE

The Remuneration Committee is currently composed of five members, comprising three independent non-executive Directors, namely Mr. Hon Yiu Ming, Matthew (Chairman), Professor Kung Hsiang Fu and Professor Tso Wung Wai; one executive Director, Mr. Deng Jie and one non-executive Director, Mr. Wee Ee Lim (Mr. Chng Hwee Hong as his alternate). It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually to review the remuneration policies and packages for Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration. During the Year, it has convened one meeting and reviewed the remuneration packages for all directors of the Company.

Details of attendance of each member of the Remuneration Committee during the Year are as follows:

	Attendance
Independent non-executive Directors	
Mr. Hon Yiu Ming, Matthew *(Chairman)*	1/1
Professor Kung Hsiang Fu	1/1
Professor Tso Wung Wai	1/1
Executive Directors	
Mr. Deng Jie	1/1
Non-executive Directors	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate)*	1/1

Generally, the employees of the Group (including the Directors) are remunerated based on their experience and qualifications, the Group's performance as well as market conditions.

AUDITORS' REMUNERATION

During the Year, the auditors of the Company provided audit and non-audit services to the Group at the fee of HK$2,000,000 and HK$650,000 respectively.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Hon Yiu Ming, Matthew (Chairman), Professor Kung Hsiang Fu and Professor Tso Wung Wai and one non-executive Director, Mr. Tarn Sien Hao. The Audit Committee has adopted a written set of terms of reference in accordance with the Code Provisions.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the Year, the Audit Committee has convened two meetings and conducted the following activities:

(1) reviewed interim and annual results of the Company;

(2) reviewed the internal controls and financial matters of the Group in pursuance of the terms of reference;

(3) reviewed the audit plans and findings of the external auditors of the Company; and

(4) made recommendation to the Board on the re-appointment of the external auditors.

Details of attendance of each member of the Audit Committee during the Year are as follows:

	Attendance
Independent non-executive Directors	
Mr. Hon Yiu Ming, Matthew *(Chairman)*	2/2
Professor Kung Hsiang Fu	2/2
Professor Tso Wung Wai	2/2
Non-executive Directors	
Mr. Tarn Sien Hao	2/2

There was no disagreement between the Board's and the Audit Committee's views on the selection and appointment of the external auditors.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2010, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on page 36 to 37 of the annual report of the Company.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the Year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee and the internal audit team of the Company. There was no significant incidence of failure in connection with the financial, operational and compliance control during the Year.

INDEPENDENT AUDITOR'S REPORT

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

To the members of Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hua Han Bio-Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 129 which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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, 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 auditor considers 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 our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
27 October 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	8	**808,642**	649,154
Cost of sales		**(226,901)**	(168,069)
Gross profit		**581,741**	481,085
Other income and gains	10	**7,233**	17,478
Selling and distribution expenses		**(276,545)**	(272,445)
Administrative expenses		**(77,154)**	(48,492)
Fair value gain on derivative financial instruments	36	**21,193**	–
Gain on disposal of prepaid lease payments	20	**69,947**	–
Finance costs	11	**(3,985)**	(19,701)
Profit before taxation		**322,430**	157,925
Taxation	12	**(77,962)**	(39,219)
Profit for the year from continuing operations		**244,468**	118,706
Discontinuing operations			
Profit for the year from discontinuing operations	13	**117,446**	66,228
Profit for the year	14	**361,914**	184,934
Profit for the year attributable to :			
Owners of the Company			
From continuing operations		**215,404**	115,401
From discontinuing operations		**49,896**	32,452
		265,300	147,853
Non-controlling interests			
From continuing operations		**29,064**	3,305
From discontinuing operations		**67,550**	33,776
		96,614	37,081
		361,914	184,934
Earnings per share	18		
From continuing and discontinuing operations			
Basic		**HK19.34 cents**	HK13.92 cents
Diluted		**HK18.84 cents**	HK13.92 cents
From continuing operations			
Basic		**HK15.70 cents**	HK10.86 cents
Diluted		**HK15.30 cents**	HK10.86 cents
From discontinuing operations			
Basic		**HK3.64 cents**	HK3.06 cents
Diluted		**HK3.54 cents**	HK3.06 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	2010 *HK$'000*	2009 *HK$'000*
Profit for the year	**361,914**	184,934
Other comprehensive income (expenses)		
Exchange differences arising from translation of foreign operations	**56,534**	(46,528)
Gain on revaluation of buildings	**7,479**	2,541
Deferred tax arising on revaluation on buildings	**(1,578)**	(449)
Other comprehensive income (expenses) for the year, net of tax	**62,435**	(44,436)
Total comprehensive income for the year	**424,349**	140,498
Total comprehensive income attributable to:		
Owners of the Company	**327,627**	106,482
Non-controlling interests	**96,722**	34,016
	424,349	140,498

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At at 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	19	**251,141**	256,381
Prepaid lease payments	20	**30,238**	87,953
Intangible assets	21	**295,275**	360,773
Deferred expenditure	22	**56,649**	56,061
Goodwill	23	**112,450**	128,222
Interest in an associate	24	**–**	–
Interest in a jointly controlled entity	25	**–**	–
Deposits and prepayments	26	**139,561**	6,751
Deferred tax assets	42	**6,171**	1,107
		891,485	897,248
Current assets			
Inventories	27	**33,184**	27,339
Trade receivables	28	**492,362**	439,327
Other receivables, deposits and prepayments	29	**285,422**	89,396
Bank balances and cash	30	**1,406,536**	719,438
		2,217,504	1,275,500
Assets classified as held for sale	31	**319,928**	–
		2,537,432	1,275,500
Current liabilities			
Trade payables	32	**37,013**	46,090
Other payables and accrued expenses	33	**38,396**	65,757
Obligation under a finance lease	34	**74**	–
Bank borrowings	35	**55,526**	69,827
Derivative financial instruments	36	**5,534**	–
Tax payable		**56,388**	40,383
		192,931	222,057
Liabilities directly associated with assets classified as held for sale	31	**88,344**	–
		281,275	222,057
Net current assets		**2,256,157**	1,053,443
Total assets less current liabilities		**3,147,642**	1,950,691

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At at 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	*40*	**160,234**	132,110
Reserves	*41(a)*	**2,522,645**	1,496,679
Equity attributable to owners of the Company		**2,682,879**	1,628,789
Share award reserve of a subsidiary	*43*	**11,269**	–
Non-controlling interests		**388,498**	243,551
Total equity		**3,082,646**	1,872,340
Non-current liabilities			
Obligation under a finance lease	*34*	**281**	–
Bank borrowings	*35*	**–**	2,196
Deferred tax liabilities	*42*	**64,715**	76,155
		64,996	78,351
		3,147,642	1,950,691

The consolidated financial statements on pages 38 to 129 were approved and authorised for issue by the board of directors on 27 October 2010 and are signed on its behalf by:

Zhang Peter Y.
Director

Deng Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000*	Asset revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Exchange reserve *HK$'000*	Share option reserve *HK$'000*	Other reserve *HK$'000*	Retained profits *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Share award reserve of a subsidiary *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 July 2008	88,073	248,273	11,113	76,680	244,609	–	–	637,874	–	1,306,622	–	224,878	1,531,500
Profit for the year	–	–	–	–	–	–	–	147,853	–	147,853	–	37,081	184,934
Other comprehensive income (expense) for the year	–	–	2,009	–	(43,380)	–	–	–	–	(41,371)	–	(3,065)	(44,436)
Total comprehensive income (expenses) for the year	–	–	2,009	–	(43,380)	–	–	147,853	–	106,482	–	34,016	140,498
Deemed acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(7,738)	(7,738)
Open offer	44,037	176,147	–	–	–	–	–	–	–	220,184	–	–	220,184
Share issue expenses	–	(3,144)	–	–	–	–	–	–	–	(3,144)	–	–	(3,144)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(10,796)	(10,796)
Deemed partial disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,836	1,836
Transfer to statutory reserve fund *(Note 41)*	–	–	–	14,947	–	–	–	(16,302)	–	(1,355)	–	1.355	–
Proposed final dividend *(Note 17)*	–	–	–	–	–	–	–	(36,991)	36,991	–	–	–	–
At 30 June 2009	132,110	421,276	13,122	91,627	201,229	–	–	732,434	36,991	1,628,789	–	243,551	1,872,340
At 1 July 2009	132,110	421,276	13,122	91,627	201,229	–	–	732,434	36,991	1,628,789	–	243,551	1,872,340
Profit for the year	–	–	–	–	–	–	–	265,300	–	265,300	–	96,614	361,914
Other comprehensive income (expense) for the year	–	–	5,887	–	56,440	–	–	–	–	62,327	–	108	62,435
Total comprehensive income for the year	–	–	5,887	–	56,440	–	–	265,300	–	327,627	–	96,722	424,349
Issue of shares upon placing *(Note 40)*	26,474	680,382	–	–	–	–	–	–	–	706,856	–	–	706,856
Share issue expenses	–	(16,726)	–	–	–	–	–	–	–	(16,726)	–	–	(16,726)
Recognition of equity-settled share-based payments	–	–	–	–	–	26,480	–	–	–	26,480	11,269	–	37,749
Issue of shares upon exercise of share options *(Note 40)*	1,650	18,694	–	–	–	(4,174)	–	–	–	16,170	–	–	16,170
Partial disposal/deemed disposal of subsidiaries	–	–	–	–	–	–	26,100	–	–	26,100	–	54,168	80,268
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	8,906	–	–	8,906	–	(8,906)	–
Disposal of a subsidiary	–	–	–	–	(1,369)	–	–	–	–	(1,369)	–	–	(1,369)
Transfer to statutory reserve fund *(Note 41)*	–	–	–	12,629	–	–	–	(15,592)	–	(2,963)	–	2,963	–
Final dividend declared	–	–	–	–	–	–	–	–	(36,991)	(36,991)	–	–	(36,991)
Proposed final dividend *(Note 17)*	–	–	–	–	–	–	–	(48,070)	48,070	–	–	–	–
At 30 June 2010	160,234	1,103,626	19,009	104,256	256,300	22,306	35,006	934,072	48,070	2,682,879	11,269	388,498	3,082,646

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit before taxation from continuing operations		**322,430**	157,925
Profit before taxation from discontinuing operations		**142,376**	82,311
Profit before taxation		**464,806**	240,236
Amortisation of intangible assets		**42,476**	43,130
Amortisation of prepaid lease payments		**1,881**	1,622
Depreciation of property, plant and equipment		**13,770**	13,659
Fair value gain on derivative financial instruments		**(38,438)**	–
Finance costs		**4,033**	19,843
Gain on deemed acquisition of additional interest in a subsidiary	*38*	**–**	(7,738)
Gain on disposal of a subsidiary	*44*	**(1,369)**	–
Gain on disposal of prepaid lease payments		**(69,947)**	–
Impairment loss on trade receivables		**1,236**	–
Impairment loss on other receivables		**938**	–
Interest income		**(2,902)**	(3,236)
Loss on deemed partial disposal of a subsidiary	*38*	**–**	1,836
Loss on disposal/write-off of property, plant and equipment		**101**	218
Share-based payments		**37,749**	–
Operating cash flows before movements in working capital		**454,334**	309,570
Increase in non-current deposits and prepayments		**(112,337)**	(5,369)
Increase in inventories		**(14,042)**	(1,515)
Increase in trade receivables		**(128,569)**	(118,315)
(Increase) decrease in other receivables, deposits and prepayments		**(169,565)**	23,395
Increase in trade payables		**19,730**	17,371
Increase (decrease) in other payables and accrued expenses		**7,589**	(504)
Cash generated from operations		**57,140**	224,633
Income tax paid		**(88,019)**	(64,118)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(30,879)**	160,515

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Net cash inflow from partial disposal and deemed partial disposal of subsidiaries		**129,340**	–
Proceeds from disposal of property, plant and equipment		**4,713**	–
Interest received		**2,902**	3,236
Net cash inflow from disposal of a subsidiary	*44*	**1,136**	–
Deposit paid for acquisition of additional interest in a subsidiary		**(27,224)**	–
Purchase of property, plant and equipment		**(4,172)**	(63,383)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**106,695**	(60,147)
FINANCING ACTIVITIES			
Proceeds from placing of new shares		**706,856**	–
New bank borrowings raised		**55,086**	–
Proceeds from issue of shares upon exercises of share options		**16,170**	–
Repayment of bank borrowings		**(72,202)**	(392,595)
Dividend paid		**(36,991)**	–
Expenses on issue of shares		**(16,726)**	(3,144)
Interest paid		**(4,014)**	(19,843)
Repayment of obligation under a finance lease		**(45)**	–
Finance lease charges paid		**(19)**	–
Proceeds from issue of shares from open offer		**–**	220,184
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**648,115**	(195,398)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**723,931**	(95,030)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**719,438**	816,298
Effect of foreign exchange rate changes		**12,642**	(1,830)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,456,011**	719,438
Cash and cash equivalents at the end of the year, represented by:			
Bank balances and cash		**1,406,536**	719,438
Bank balances and cash included in assets classified as held for sale	*31*	**49,475**	–
		1,456,011	719,438

1. GENERAL

Hua Han Bio-Pharmaceutical Holdings Limited (the "**Company**") is incorporated in the Cayman Islands as an exempted company with limited liabilities and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its registered office and principal place of business of the Company is Unit 3405, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Other than those subsidiaries established in the People's Republic of China (the "**PRC**") whose functional currency is Renminbi ("**RMB**"), the functional currency of the Company and its subsidiaries is Hong Kong dollars ("**HK$**"). The consolidated financial statements are presented in HK$ as most of the Company's investors are located in Hong Kong.

The Company and its subsidiaries (collectively referred to as the "**Group**") are engaged in research and development, selling, distributing and manufacturing of pharmaceutical products. Details of the principal activities of the subsidiaries are set out in Note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Hong Kong Accounting Standard ("**HKAS**") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Interpretation ("**Int**") 9 and HKAS 39 (Amendments)	Embedded Derivatives

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK (IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS 2, HKAS 38, paragraph 80 of HKAS 39, HK(IFRIC) – Int 9 and HK(IFRIC) – Int 16

In addition, in the current year, the Group has elected to early adopt the amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations as part of Improvements to HKFRSs 2009 (adopted in advance of effective date of 1 January 2010).

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments *(see Note 9)* and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 "Financial Instruments: Disclosures")

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 3 (Revised): Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 July 2009. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 July 2009.

The Group's adoption of HKAS 27 (Revised) and HKFRS 3 (Revised) results in changes in the Group's accounting policies which have been applied prospectively starting 1 July 2009. The adoption affects the Group's accounting treatments for (i) transactions between the owners and the non-controlling interests of subsidiary companies and (ii) business combinations.

HKAS 27 (Revised) changes (a) the term "minority interest" to "non-controlling interest" and (b) the accounting requirements of the Group in respect of (i) changes in its ownership interests in subsidiary companies, for cases which result in either a loss of control or not, and (ii) losses incurred by its subsidiary companies. For the changes in the Group's ownership interest in a subsidiary company that do not result in a loss of control, the Group is required by the revised standard to account for such changes as equity transactions. Accordingly, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. For the changes in the Group's ownership interest in a subsidiary company that result in a loss of control, the Group is required by the revised standard to (a) remeasure the retained investment at its fair value at the date when control was lost and (b) recognise the difference between (i) the fair value of consideration received and the retained investment and (ii) the carrying amounts of assets (including the attributable carrying amount of goodwill), liabilities, non-controlling interests (including any components of other comprehensive income attributable to them) as an additional gain or loss on disposal. For the losses incurred by loss-making subsidiary companies, the Group is required by the revised standard to account for the losses attributable to its non-controlling interests even if that results in a deficit balance for the non-controlling interests in the Group's accounts.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 3 (Revised): Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements (continued)

HKFRS 3 (Revised) introduces certain changes in the accounting requirements for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results of the Group after the date of its adoption. These changes include, but are not limited to, the new requirements of (a) for partial acquisitions, allowing non-controlling interests to be measured either at their proportionate interests in the net identifiable assets or at their fair value; (b) for step acquisitions, (i) measuring goodwill as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition plus the consideration transferred and the net assets acquired and (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the Group immediately before the business combination; (c) recognising acquisition-related costs as expenses, rather than including them in goodwill; and (d) recognising the fair value of contingent considerations at the acquisition date and reflecting the subsequent changes of such contingent considerations either in profit or loss or in other comprehensive income in accordance with the requirements of HKAS 39 "Financial Instruments: Recognition and Measurement".

The above changes result in (a) an increase in the balance of other reserves (included within other components of equity) by HK$35,006,000 (representing the gain on deemed on partial disposal/ deemed disposal and acquisition of additional interest in subsidiaries) in the Group's consolidated statement of financial position at 30 June 2010 and (b) a decrease in the profit for the year ended 30 June 2010 by the same amount. Details are set out in Note 38(5) and (7).

Early adoption of amendment to HKFRS 5 as part of Improvements to HKFRSs 2009

The amendment has clarified that HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosures requirements in other HKFRSs do not generally apply to such disposal groups.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (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 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash settled Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

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

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under the standard, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain buildings and 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 HKFRSs 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 (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

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 date of acquisition or up to the effective date of disposal, as appropriate.

3. 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.

Non-controlling interests are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance. Prior to 1 July 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries prior to 1 July 2009

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

Changes in the Group's ownership interests in existing subsidiaries after 1 July 2009

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

Changes in the Group's ownership interests in existing subsidiaries after 1 July 2009 (continued)

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when the control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost if regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

The acquisition of business is accounted for using the purchase method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

For the purposes 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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position 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 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 not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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 regarded 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 (of disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

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 and net of discounts.

Revenue from sales of goods is recongised when the goods are delivered and title has passed.

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 on initial recognition.

Property, plant and equipment

Property, plant and equipment other than leasehold buildings and construction in progress, are stated at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold buildings held for use in the production or supply of goods are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting date.

Any revaluation increase arising on revaluation of leasehold buildings is recognised in other comprehensive income and accumulated in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to accumulated profits or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 profit or loss in the period in which the item is derecognised.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid lease payments

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the relevant lease terms.

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 lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense 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.

Intangible assets

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 values at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately

Intangible asset acquired separately and 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Operating right

Operating right represents the exclusive right to sell a pharmaceutical product in the PRC, and is stated at cost less any impairment losses and is amortised on a straight-line basis over its term of the right.

Technical knowhow

The cost of acquiring the rights to technical knowhow for the development and production of new pharmaceutical products is stated at cost less any impairment losses and is amortised on a straight-line basis over the estimated economic life of the knowhow, commencing from the date when the products are ready for use.

Research and development expenditure

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Project development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately (continued)

Research and development expenditure (continued)

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 measured at cost less accumulated amortisation and accumulated impairment loss (is any), on the same basis as intangible assets acquired separately.

Trade name

The cost of acquiring the trade name for medicinal healthcare products is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated economic life of the trade name.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred expenditure

Deferred expenditure represented cost of acquiring a knowhow that is in the process of being registered with relevant regulatory bodies and is initially stated at cost less any subsequent impairment losses. Deferred expenditure will be reclassified to intangible assets when the registration has been completed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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 end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

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

The tax currently payable is based on 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 end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets mainly comprise of loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, deposits 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 affected.

For 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.

For certain categories of financial asset, such as trade 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 credit period ranging from 180 – 365 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 estimated future cash flows discounted at the original effective interest rate.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 as 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 payables, other payables and accrued expenses, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivatives are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 other comprehensive income 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 or loss.

Retirement benefit costs

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

Equity settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options/award reserve).

At the end of the reporting period, 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 options/award reserve.

At the time when the share options are exercised, the amount previously recognised in share options/award 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 options/award reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exist, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

Estimation of fair value of buildings outside Hong Kong

As described in Note 19, the buildings located outside Hong Kong were revalued at the end of the reporting period by independent professional valuers by reference to market evidence of recent transactions for similar properties. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

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. As at 30 June 2010, the carrying amount of goodwill was approximately HK$112,450,000 (2009: HK$128,222,000). Details of impairment testing on goodwill are set out in Note 23.

Estimated impairment of intangible assets and deferred expenditure

The Group performs annual assessments on whether there have been impairment of intangible assets and deferred expenditure. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the businesses, pre-tax discount rates and other assumptions underlying the value-in-use calculations.

Income taxes

Determining income tax provisions involves estimation on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax and deferred tax provisions in the period in which such determination is made.

Valuation of derivative financial instruments

During the year ended 30 June 2010, the Group entered into a SI Investment Agreements (as defined in Note 36) with the Subscribers (as defined in Note 36). The Group's management has assessed the terms of the SI Investment Agreements and the facts and circumstances, and concluded that in respect of the funds contributed by the Subscribers, a derivative components shall be recognised at the date of completion of the subscription. After initial recognition, the derivative component is measured at fair value as at the end of the reporting period. Significant inputs used to determine the fair value include risk-free rate, volatility, dividend yield, probability of listing, revenue growth, gross profit margin, discount rate and effective tax rate.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Valuation of share options

The fair value of share options granted under the share option scheme is determined using the discounted cash flow model. The significant inputs into the model are revenue growth, gross profit margin, effective tax rate and discount rate.

5. 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 obligation under a finance lease and bank borrowings disclosed in Notes 34 and 35 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure.

The Group monitors capital using a gearing ratio, calculated as total debt divided by total capital. Total debt includes bank borrowings (including current and non-current bank borrowings as shown in the consolidated statement of financial position) and obligation under a finance lease. Total capital includes equity attributable to owners of the Company and reserves. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting dates were as follows:

	2010	2009
	HK$'000	*HK$'000*
Total debt	**55,881**	72,023
Total equity	**2,682,879**	1,628,789
Gearing ratio	**2.1%**	4.4%

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)		
Trade receivables	**492,362**	439,327
Other receivables and deposits	**135,054**	4,965
Bank balances and cash	**1,406,536**	719,438
	2,033,952	1,163,730
Financial liabilities		
Other financial liabilities at amortised cost		
Trade payables	**37,013**	46,090
Other payables and accrued expenses	**38,396**	65,757
Bank borrowings	**55,526**	72,023
Obligation under a finance lease	**355**	–
	131,290	183,870
Derivative financial instruments	**5,534**	–

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include trade receivables, other receivables and deposits, bank balances and cash, trade payables, other payables and accrued expenses, obligation under a finance lease, bank borrowings and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from substantial portion of its revenues and expenses generated and incurred by its operating units in RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities). As a result of the volatility of the financial market, the management adjusted the sensitivity rate from 5% to 10% in the current year for the purpose of analysing foreign currency risk.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in equity**
	%	*HK$'000*
2010		
If Hong Kong dollar weakens against RMB	10	5,591
If Hong Kong dollar strengthens against RMB	(10)	(5,591)
2009		
If Hong Kong dollar weakens against RMB	5	6,878
If Hong Kong dollar strengthens against RMB	(5)	(6,878)

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank balances and bank borrowings with floating interest rates which expose the Group to cash flow interest rate risk. Bank borrowings and obligation under a finance lease at fixed rate exposes the Group to fair value interest-rate risk.

The interest rates of the obligation under a finance lease and interest-bearing bank borrowings of the Group are disclosed in Notes 34 and 35 respectively. The Group currently does not have an interest rate hedging policy. However, management monitors the Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

	Increase in interest rate *(basis point)*	**Decrease in net profit and equity** *HK$'000*
2010	100	231
2009	100	17

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are over a large number of customers.

As at 30 June 2010, the Group's concentration of credit risk by geographical locations is mainly the PRC, which accounted for 100% (2009: 100%) of the total trade receivables.

As at 30 June 2010, the Group has significant concentration of credit risk arising from deposit paid for the acquisition of additional interest in a subsidiary paid to an independent third party. The Group also has certain significant concentration risk as 80% (2009: Nil) of a refundable deposit paid for the acquisition of certain intangible assets of the non-current deposits and prepayments were due from one independent third party.

As at 30 June 2010, the Group has certain significant concentration risk as 96% (2009: Nil) of other receivables were due from one independent third party.

However, the directors of the Company consider the credit risk is under control since the management exercise due care and check the financial background of these debtors.

The credit risks for bank balances are considered minimal as such amounts are placed with banks with good credit ratings.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. Details of the Group's bank borrowings are set out in Note 35. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Within 1 year	1 – 5 years	More than 5 years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 30 June 2010					
Trade payables	37,013	–	–	37,013	37,013
Other payables and accrued expenses	38,396	–	–	38,396	38,396
Obligation under a finance lease	95	316	–	411	355
Bank borrowings	57,298	–	–	57,298	55,526
	132,802	316	–	133,118	131,290
As at 30 June 2009					
Trade payables	46,090	–	–	46,090	46,090
Other payables and accrued expenses	65,757	–	–	65,757	65,757
Bank borrowings	72,420	983	2,316	75,719	72,023
	184,267	983	2,316	187,566	183,870

Fair value

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are based on observable market data (unobservable inputs).

	30 June 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial instruments	–	–	5,534	5,534

Reconciliation of Level 3 fair value measurements of financial liabilities

	HK$'000
Opening balance	–
Addition	49,072
Fair value change recognised in the consolidated income statement	
– continuing	(21,193)
– discontinuing	(17,245)
Classified as liabilities directly associated with assets classified as held for sale	(5,100)
Closing balance	5,534

8. TURNOVER

Turnover represents the amounts received and receivable from the manufacturing, sale and trading of pharmaceutical products during the year. The following is an analysis of the Group's turnover from continuing operations:

	2010	2009
	HK$'000	*HK$'000*
Manufacturing, sale and trading of pharmaceutical products	**808,642**	649,154

9. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed solely on the basis of manufacturing, sales and trading of pharmaceutical products manufactured by the Group and trading of pharmaceutical products bought from independent third parties. However, information reported to the chief executive officer is more specifically focused on the category of products manufactured. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

1. Pharmaceutical products – the manufacturing, sale and trading of Chinese and Western pharmaceutical products, mainly including gynecological medicines, bio-pharmaceutical and bio-technological products in the PRC; and

2. Facial mask and skincare products – the manufacturing and sale of facial mask and other skincare products

During the year, the operations of facial mask and skincare products were classified as discontinuing operations. Details of the discontinuing operations are set out in Note 13.

9. SEGMENT INFORMATION (continued)

Segment revenues, results, assets and liabilities

The Group's continuing operations has only one single category of products, namely pharmaceutical products and accordingly no further segment information is presented.

Geographical information

No geographical information is presented as the Group's business is principally carried out in the PRC and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

Information about major customers

During the two years ended 30 June 2010 and 2009, no revenues from transactions with any single external customer amounted to 10% or more of the Group's revenues.

10. OTHER INCOME AND GAINS

	2010	2009
	HK$'000	*HK$'000*
Continuing operations:		
Bank interest income	**2,825**	3,225
Government subsidy *(Note)*	**4,322**	3,830
Gain on deemed acquisition from non-controlling interests *(Note 38(3))*	**–**	7,738
Sales of raw materials	**–**	989
Others	**86**	1,696
	7,233	17,478

Note: The amount represented loan interest subsidies received by the Group from the PRC government with no specific conditions attached.

11. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Continuing operations:		
Interest expenses on:		
– bank borrowings repayable within five years	**3,966**	19,699
– bank borrowings repayable over five years	**–**	2
– finance lease charges	**19**	–
Total borrowing costs charged to the consolidated income statement	**3,985**	19,701

12. TAXATION

	2010	2009
	HK$'000	*HK$'000*
Continuing operations:		
PRC Enterprise Income Tax ("**EIT**")		
– Current year	**84,268**	45,689
– Underprovision in prior year	**5,807**	–
Deferred tax *(Note 42)*		
– Current year	**(12,113)**	(6,470)
	77,962	39,219

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for both years.

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

During the year ended 30 June 2009, Guizhou Hanfang Medicine Manufacture Co., Ltd. ("**GHMM**"), a subsidiary of the Company was classified as an approved "High and New Technology Enterprises" in the PRC and was entitled to a preferential EIT rate of 15%. During the year ended 30 June 2010, GHMM is subject to the tax rate of 25%.

12. TAXATION (continued)

Pursuant to an approval received from the local tax bureau during 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited ("**DCX**"), a subsidiary of the Company, was approved a PRC Corporate Income Tax rate of 15% effective from years 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entities established in the western part of the PRC.

Pursuant to the laws and regulations in the PRC, Guizhou Factorr Bio-Technology Company Limited ("**Guizhou Factorr**"), a sino-foreign cooperative subsidiary of the Company, was granted a 2-year exemption followed by 3-year 50% reduction with effect from 1 January 2008.

Pursuant to the laws and regulations of the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the BVI.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation from continuing operations	**322,430**	157,925
Tax at the domestic tax rate of 25% (2009: 25%)	**80,607**	39,481
Tax effect of expenses not deductible for tax purpose	**6,793**	26,091
Tax effect of income not taxable for tax purpose	**(5,298)**	(1,934)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,947)**	(17,819)
Underprovision in prior year	**5,807**	–
Withholding tax on unremitted earnings of subsidiaries in the PRC	**–**	(6,600)
Tax charge for the year (relating to continuing operations)	**77,962**	39,219

The domestic tax rate in the PRC is used as it is where the operation of the Group is substantially based.

Details of the deferred taxation are set out in Note 42.

13. DISCONTINUING OPERATIONS

During the year, the Group proposed to spin-off its operations in facial mask and skincare products through separate listing of its non-wholly owned subsidiary Magic Holdings Group Limited ("**Magic Holdings**") and its subsidiaries (collectively referred to as the "**Magic Group**") on the Stock Exchange. Subsequent to the end of the reporting period on 24 September 2010, Magic Holdings was listed on the Stock Exchange. Details of which are set out in the prospectus of Magic Holdings dated 10 September 2010. Upon the listing of the Magic Group (the "**Listing**"), the Group's interests in the Magic Group were diluted from 36.4% to 25.94% and pursuant to the cancellation of the Voting-in-Concert Undertakings (as defined in Note 38), the investments in Magic Group would be then reclassified from investments in subsidiaries to investments in associates. Details of changes are set out in Notes 38 and 49.

Accordingly, the operations in facial mask and skincare products were classified as discontinuing operations. The assets and liabilities attributable to this business have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The results of the operations in facial mask and skincare products for the year ended 30 June 2010 which have been included in the consolidated income statement were as follows:

	2010	2009
	HK$'000	*HK$'000*
Turnover	**631,039**	374,593
Cost of sales	**(145,323)**	(104,939)
Gross profit	**485,716**	269,654
Other income and gains	**1,851**	1,704
Selling and distribution expenses	**(332,621)**	(175,321)
Administrative expenses	**(29,767)**	(13,584)
Fair value gain on derivative financial instruments	**17,245**	–
Finance costs	**(48)**	(142)
Profit before taxation	**142,376**	82,311
Taxation	**(24,930)**	(16,083)
Profit for the year from discontinuing operations	**117,446**	66,228

13. DISCONTINUING OPERATIONS (continued)

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to:		
Owners of Magic Holdings	**118,583**	67,618
Non-controlling interests	**(1,137)**	(1,390)
	117,446	66,228
Net cash from operating activities	**82,596**	50,350
Net cash used in investing activities	**(92,265)**	(44,209)
Net cash from (used in) financing activities	**51,658**	(2,828)
Net cash inflow	**41,989**	3,313

Profit for the year from discontinuing operations including the following:

	2010 HK$'000	2009 HK$'000
Amortisation of intangible assets	**3,791**	3,787
Auditors' remuneration *(Note)*	**1,400**	–
Cost of inventories sold	**145,323**	104,939
Staff costs (including directors' emoluments)	**31,229**	14,671
Share-based payments	**11,269**	–
Depreciation of property, plant and equipment	**490**	615
Minimum lease payment under operating leases in respect of land and buildings	**1,612**	1,517
Net foreign exchange (gains) losses	**(8)**	129
Loss on disposal/write-off of property, plant and equipment	**101**	–
Bank interest income	**(77)**	(11)
Gain on disposal of a subsidiary *(Note 44)*	**(1,369)**	–
Fair value gain on derivative financial instruments	**(17,245)**	–

Note: The auditors' remuneration of Magic Group for the year ended 30 June 2009 was borne by GHMM, a fellow subsidiary.

The carrying amounts of the assets and liabilities of Magic Group at 30 June 2010 are disclosed in Note 31.

14. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging :		
Continuing operations:		
Amortisation of intangible assets	**38,685**	39,343
Amortisation of prepaid lease payments	**1,881**	1,622
Auditors' remuneration	**2,000**	2,600
Cost of inventories sold	**226,901**	168,069
Staff costs (including directors' emoluments) *(Note 15)*	**35,288**	44,878
Share-based payments *(Note 43)*	**26,480**	–
Depreciation of property, plant and equipment	**13,280**	13,044
Impairment loss on trade receivables	**1,236**	–
Impairment loss on other receivables	**938**	–
Minimum lease payment under operating leases in respect of land and buildings	**2,294**	1,586
Research and development costs	**836**	1,849
Net foreign exchange losses	**1,464**	6
Loss on deemed partial disposal of subsidiaries *(Note 38(1))*	**–**	1,836
Loss on disposal/write-off of property, plant and equipment	**–**	218

15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2009: nine) directors were as follows:

For the year ended 30 June 2010

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Retirement benefit schemes contribution	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:						
Mr. Zhang Peter Y.	–	165	1,173	7	391	1,736
Mr. Deng Jie	–	138	1,080	7	3,912	5,137
Mr. Long Xian Feng	–	110	987	7	391	1,495
Mr. Bian Shu Guang[1]	–	–	–	–	391	391
Mr. Zhou Chong Ke[2]	–	110	400	7	3,010	3,527
Non-executive directors:						
Mr. Wee Ee Lim	180	–	–	–	391	571
Mr. Tarn Sien Hao	180	–	–	–	391	571
Independent non-executive directors:						
Professor Kung Hsiang Fu	180	–	–	–	391	571
Professor Tso Wung Wai	180	–	–	–	391	571
Mr. Hong Yiu Ming, Matthew	180	–	–	–	391	571
	900	523	3,640	28	10,050	15,141

[1] *Retired by rotation on 18 December 2009*
[2] *Appointed on 7 April 2010*

15. DIRECTORS' EMOLUMENTS (continued)

For the year ended 30 June 2009

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Retirement benefit schemes contribution	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors :						
Mr. Zhang Peter Y.	–	165	1,173	7	–	1,345
Mr. Deng Jie	–	138	1,080	7	–	1,225
Mr. Long Xian Feng	–	110	987	7	–	1,104
Mr. Bian Shu Guang	–	110	400	7	–	517
Non-executive directors:						
Mr. Wee Ee Lim	150	–	–	–	–	150
Mr. Tarn Sien Hao	150	–	–	–	–	150
Independent non-executive directors:						
Professor Kung Hsiang Fu	150	–	–	–	–	150
Professor Tso Wung Wai	150	–	–	–	–	150
Mr. Hong Yiu Ming, Matthew	150	–	–	–	–	150
	750	523	3,640	28	–	4,941

Discretionary bonus for the two years ended 30 June 2010 and 2009 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

No directors waived or agreed to waive any emoluments in the two years ended 30 June 2010 and 2009.

16. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 15. The emolument of the remaining one (2009: one) highest paid individual was as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries, allowance, other benefits and bonus	**644**	371
Retirement benefit schemes contribution	**12**	12
Share-based payments	**1,204**	–
	1,860	383

Note: The emolument of the above highest paid individual fell within the HK$1,500,001 to HK$2,000,000 (2009: nil to HK$1,000,000) band.

During the two years ended 30 June 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

17. DIVIDEND

	2010	2009
	HK$'000	*HK$'000*
Proposed final dividend – HK3 cents (2009: HK2.8 cents)	**48,070**	36,991

Final dividend for 2010

The final dividend of HK3 cents per share has been proposed by the directors and is subject to approval by the Company's shareholders in the forthcoming Annual General Meeting.

In addition, the directors further proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by shareholders whose name appear on the register on 17 December 2010.

Both the final dividend for 2010 and bonus issue are subject to approval by the Company's shareholders in the forthcoming Annual General Meeting.

Final dividend for 2009

On 23 October 2009, the Board resolved to propose a final cash dividend of HK2.8 cents per share amounting to HK$36,991,000 for the year ended 30 June 2009. The final dividend had been approved by the Company's shareholders in the annual general meeting on 18 December 2009.

18. EARNINGS PER SHARE

From continuing operations

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to the owners of the Company	**265,300**	147,853
Less: Profit for the year attributable to the owners of the Company from discontinuing operations	**(49,896)**	(32,452)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	**215,404**	115,401

	2010	2009
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,371,990**	1,062,411
Effect of dilutive ordinary shares in respect of share options	**35,611**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,407,601**	1,062,411

	2010	2009
Basic earnings per share *(in HK cents)*	**15.70**	10.86
Diluted earnings per share *(in HK cents)*	**15.30**	10.86

For the year ended 30 June 2009, diluted earnings per share is the same as the basic earnings per share as there was no dilutive potential ordinary shares in existence during last year.

18. EARNINGS PER SHARE (continued)

From discontinuing operations

Basic earnings per share for the discontinuing operations is HK3.64 cents per share (2009: HK3.06 cents per share) and diluted earnings per share for the discontinuing operations is HK3.54 cents per share (2009: HK3.06 cents per share), based on the profit for the year attributable to the owners of the Company from discontinuing operations of HK$49,896,000 (2009: HK$32,452,000) and the denominators detailed above for both basic and diluted earnings per share.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AT COST OR VALUATION						
At 1 July 2008	99,860	3,562	69,242	21,557	25,644	219,865
Exchange realignment	(285)	(48)	(189)	(81)	(130)	(733)
Additions	–	45	1,188	785	84,554	86,572
Disposals	–	–	–	(378)	–	(378)
Transfers	1,014	2,355	–	–	(3,369)	–
Decrease in revaluation	(2,076)	–	–	–	–	(2,076)
At 30 June 2009	98,513	5,914	70,241	21,883	106,699	303,250
Exchange realignment	1,020	185	775	306	1,120	3,406
Additions	–	–	2,601	1,944	27	4,572
Disposals	(4,844)	(114)	–	–	–	(4,958)
Increase in revaluation	2,823	–	–	–	–	2,823
Classified as assets held for sale	–	–	(1,196)	(2,334)	–	(3,530)
At 30 June 2010	97,512	5,985	72,421	21,799	107,846	305,563
Comprising:						
At cost	–	5,985	72,421	21,799	107,846	208,051
At valuation	97,512	–	–	–	–	97,512
	97,512	5,985	72,421	21,799	107,846	305,563

19. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ACCUMULATED DEPRECIATION						
At 1 July 2008	–	1,679	23,678	12,790	–	38,147
Exchange realignment	–	(45)	(76)	(39)	–	(160)
Provided for the year	4,617	70	6,807	2,165	–	13,659
Eliminated on disposals	–	–	–	(160)	–	(160)
Eliminated on revaluation	(4,617)	–	–	–	–	(4,617)
At 30 June 2009	–	1,704	30,409	14,756	–	46,869
Exchange realignment	–	44	482	194	–	720
Provided for the year	4,787	253	6,630	2,100	–	13,770
Eliminated on disposals	(131)	(13)	–	–	–	(144)
Eliminated on revaluation	(4,656)	–	–	–	–	(4,656)
Classified as assets held for sale	–	–	(709)	(1,428)	–	(2,137)
At 30 June 2010	–	1,988	36,812	15,622	–	54,422
CARRYING VALUES						
At 30 June 2010	97,512	3,997	35,609	6,177	107,846	251,141
At 30 June 2009	98,513	4,210	39,832	7,127	106,699	256,381

The Group's buildings are located outside Hong Kong and are held under medium-term leases.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	Over the lease terms or 2% to 10%, whichever is shorter
Leasehold improvements	Over the lease terms or 20% to 25%, whichever is shorter
Plant and machinery	5% to 20%
Furniture, fixtures, equipment and motor vehicles	12.5% to 20%

19. PROPERTY, PLANT AND EQUIPMENT (continued)

The buildings situated outside Hong Kong for office and certain production premises were revalued by DTZ Debenham Tie Leung Limited ("**DTZ**"), an independent firm of registered professional surveyors not connected with the Group, at 30 June 2010 by reference to market evidence of recent transactions for similar properties in similar location. The valuation conforms to International Valuation Standards. At 30 June 2010, the buildings were assessed at HK$97,512,000 (2009: HK$93,675,000). In the current year, revaluation surplus of HK$7,479,000 (2009: HK$2,541,000) has been credited to the asset revaluation reserve.

For the year ended 30 June 2009, included in the Group's buildings are staff quarter of HK$4,838,000 which was stated at cost as the directors considered that the carrying amount approximated to its fair value at the end of the reporting period. During the year ended 30 June 2010, the staff quarter had been disposed of to a director for a consideration of approximately HK$4,713,000.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been approximately HK$59,525,000 (2009: HK$69,025,000).

For the year ended 30 June 2010, motor vehicles include an amount of approximately HK$371,000 (2009: Nil) in respect of assets held under a finance lease.

At 30 June 2010, certain of the Group's buildings with net carrying amounts of approximately HK$32,669,000 (2009: HK$36,034,000) were pledged to secure certain banking facilities granted to the Group *(Note 35)*. Further, for the year ended 30 June 2009, the Group's plant and machinery with net carrying amounts of approximately HK$24,905,000 were pledged to secure banking facilities granted to the Group *(Note 35)*.

20. PREPAID LEASE PAYMENTS

	2010	2009
	HK$'000	*HK$'000*
At 1 July	**90,113**	92,000
Exchange realignment	**466**	(265)
Amortised during the year	**(1,881)**	(1,622)
Disposal	**(57,988)**	–
At 30 June	**30,710**	90,113

20. PREPAID LEASE PAYMENTS (continued)

	2010	2009
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset included in other receivables, deposits and prepayments	**472**	2,160
Non-current assets	**30,238**	87,953
	30,710	90,113

At the end of the reporting period, the leasehold land outside Hong Kong was held under medium-term lease.

At 30 June 2010, the carrying value of the Group's prepaid lease payments with a carrying amount of approximately HK$4,386,000 (2009: HK$4,413,000) was pledged for banking facilities granted to the Group *(Note 35)*.

Pursuant to an agreement signed on 20 July 2007 between the Group and an independent third party (the "**Agreement**"), certain of the Group's prepaid lease payments with a net carrying amount of HK$57,988,000 were held for development into a commercial and residential building (the "**Property**"). According to the terms of the Agreement, all the construction costs incurred were borne by the counterparty. Upon the completion of the Property, the Group would entitle to share 30% of the floor area of the Property.

Pursuant to a supplementary agreement signed on 6 July 2009, the Group would be entitled to share 30% of the revenue from the sales of the Property and the Group shall bear the EIT derived on the Property in proportion to the profit sharing. During the year ended 30 June 2010, the construction work of the Property has been completed and sales of the Property had commenced.

Since the conditions under the Agreement had been fulfilled, a gain on disposal of HK$69,947,000 had been recognised in the consolidated income statement for the year ended 30 June 2010. Consideration receivable for the disposal amounting to approximately HK$127,935,000 was included in other receivables *(Note 29)*.

21. INTANGIBLE ASSETS

	Trade name HK$'000	Operating right HK$'000	Technical knowhow HK$'000 (Note)	Deferred development costs HK$'000	Total HK$'000
AT COST					
At 1 July 2008	34,131	22,754	365,692	6,912	429,489
Exchange realignment	(99)	(66)	(1,068)	(20)	(1,253)
At 30 June 2009	34,032	22,688	364,624	6,892	428,236
Exchange realignment	357	238	3,826	72	4,493
Classified as assets held for sale	(34,389)	–	–	–	(34,389)
At 30 June 2010	–	22,926	368,450	6,964	398,340
ACCUMULATED AMORTISATION					
At 1 July 2008	–	1,137	16,490	6,852	24,479
Exchange realignment	(5)	(7)	(114)	(20)	(146)
Provided for the year	3,787	2,272	37,011	60	43,130
At 30 June 2009	3,782	3,402	53,387	6,892	67,463
Exchange realignment	70	54	573	72	769
Provided for the year	3,791	2,275	36,410	–	42,476
Classified as assets held for sale	(7,643)	–	–	–	(7,643)
At 30 June 2010	–	5,731	90,370	6,964	103,065
CARRYING VALUES					
At 30 June 2010	–	17,195	278,080	–	295,275
At 30 June 2009	30,250	19,286	311,237	–	360,773

Note: Included in the carrying value is a balance of HK$54,448,000 (2009: HK$60,685,000), representing a technical knowhow to produce biochips. Pursuant to the purchase agreement of this technical knowhow and the related patent right, the Group is committed to pay RMB20,000,000 (2009: RMB20,000,000) (equivalent to approximately HK$22,926,000 (2009: HK$22,688,000)) to the vendor if this technology is properly registered to the relevant government authority in the PRC. The consideration of the related patent had been disclosed as commitment at the end of the reporting period *(Note 46)*. Up to the date of approval for these consolidated financial statements, the registration process is still in progress.

21. INTANGIBLE ASSETS (continued)

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Trade name	9 years
Operating right	10 years
Technical knowhow	10 years
Deferred development costs	8 years

The Group had assessed the recoverable amount of the operating right with reference to an independent valuation performed by DTZ as at 30 June 2010. The valuation is based on the multi-period excess earning method using cash flow projections based on financial budgets approved by senior management covering a seven-year period. The valuation was determined by discounting the value of expected economic benefits that exceed an appropriate rate of return on other assets being used to generate anticipated economic benefits. The discount rate used is 18%. For the year ended 30 June 2009, the relief from royalty method was adopted and a royalty rate of 9% and at a discount rate of 18% had been used in the valuation.

The Group had assessed the recoverable amount of the technical knowhow with reference to an independent valuation performed by DTZ as at 30 June 2010. The valuation is based on the relief from royalty method using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The royalty rates used on the various technical knowhow ranged from 10% to 15% (2009: 10% to 15%) and at a discount rate of 18% (2009: 18%).

The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash-generating units to exceed the aggregate recoverable amount. Since the recoverable amounts of the cash-generating units are higher than their carrying amounts, the directors consider that the carrying value of the respective intangible assets at the end of both reporting period are not impaired.

22. DEFERRED EXPENDITURE

Balance represents the costs of acquiring technical knowhow in relation to the production of a State category one new medicine in the PRC. The Group will apply for the production permit of the medicine after the completion of the construction of the related manufacturing plant and the successful application of Good Manufacturing Practice certificate.

23. GOODWILL

	Total
	HK$'000
COST	
At 1 July 2008 and 30 June 2009	128,222
Classified as assets held for sale	(15,772)
At 30 June 2010	112,450
ACCUMULATED IMPAIRMENT LOSS	
At 1 July 2008, 30 June 2009 and 30 June 2010	–
CARRYING VALUES	
At 30 June 2010	112,450
At 30 June 2009	128,222

Impairment testing on goodwill

Goodwill acquired through business combinations has been allocated to the following cash generating units for impairment testing:

- Manufacture and sale of pharmaceutical products, medicinal healthcare products for women and bio-pharmaceutical products cash-generating unit; and
- Trading of pharmaceutical products cash-generating unit

Manufacture and sale of pharmaceutical products, medicinal healthcare products for women and bio-pharmaceutical products cash-generating unit

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2009: no growth). The discount rate applied to cash flow projections is 18% (2009: 6.13%).

23. GOODWILL (continued)

Impairment testing on goodwill (continued)

Trading of pharmaceutical products cash-generating unit

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2009: no growth). The discount rate applied to cash flow projections is 18% (2009: 6.13%).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2010	2009
	HK$'000	*HK$'000*
Manufacture and sale of pharmaceutical products, medicinal healthcare products for women and bio-pharmaceutical products	**126,045**	126,045
Trading of pharmaceutical products	**2,177**	2,177
Less: classified as assets held for sale	**(15,772)**	–
	112,450	128,222

The key assumptions for the cash flow projections are the budgeted gross margin which is the average gross profit margin achieved in the year immediately before budget years and the discount rate of 18% (2009: 6.13%), which is before tax and reflects specific risks relating to the respective cash-generating units.

The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash-generating units to exceed the aggregate recoverable amount. Since the recoverable amounts of the cash-generating units are higher than their carrying amounts, the directors consider that the carrying value of the goodwill at the end of both reporting period are not impaired.

24. INTEREST IN AN ASSOCIATE

	2010	2009
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	**601**	601
Impairment charge	**(601)**	(601)
	–	–

As at 30 June 2010 and 2009, the Group had interest in the following associate:

Name	**Place of incorporation and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activity**
Tengen Lizhu Biotech Co. Limited ("**TLB**")	Hong Kong	33%	Inactive

The shareholding of the Company in TLB is held through a wholly-owned subsidiary of the Company.

For the year ended 30 June 2010 and 2009, included in cost of investment in an associate is goodwill of approximately HK$500,000.

	HK$'000
ACCUMULATED IMPAIRMENT	
At 1 July 2008, 30 June 2009 and 30 June 2010	500

TLB remained inactive during the year ended 30 June 2010 and 2009. The associate does not have any significant assets and liabilities as at 30 June 2010 and 2009, nor any significant results for the year ended 30 June 2010 and 2009.

25. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2010	2009
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**170**	170
Share of post-acquisition losses	**(170)**	(170)
	–	–

As at 30 June 2010 and 2009, the Group had interests in a jointly controlled entity as follows:

	Place of	**Percentage of**			
Name	**registration and operations**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Guizhou Hanfang Medicine Research Co., Ltd. ("**GHMR**")	The PRC	50%	40%	50%	Inactive

During the year, the Group did not share any of the losses of GHMR (2009: Nil) as, according to the joint venture agreement, the Group's share of losses of GHMR is limited to its capital contribution to GHMR, which was reached in prior years.

GHMR remained inactive during the year ended 30 June 2010 and 2009. The jointly controlled entity does not have any significant assets and liabilities as at 30 June 2010 and 2009, nor any significant results for the year ended 30 June 2010 and 2009.

26. DEPOSITS AND PREPAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Deposits paid in respect of:		
Acquisition of additional interest in a subsidiary *(Note 1)*	**27,224**	–
Deposit paid for acquisition of technical knowhow *(Note 2)*	**112,337**	–
Prepayments of marketing and promotion services *(Note 3)*	**–**	6,751
	139,561	6,751

Notes:

(1) On 28 June 2010, GHMM and Ms. Yang Yin ("**Vendor**") entered into an agreement (the "**Equity Transfer Agreement**") for the acquisition of the remaining 20% of the equity interest in Guilin Gu Jin Pharmaceutical Technology Co. Ltd. ("**Guilin Gu Jin**"), an 80%-owned subsidiary of the Company, for a consideration of RMB47,500,000 (equivalent to approximately HK$54,630,000).

As at 30 June 2010, the Group had paid RMB23,750,000 (equivalent to approximately HK$27,224,000) to the Vendor and the remaining purchase price was paid subsequent to the end of the reporting period. Further details are set out in Note 49(1).

(2) The amount represented deposits are RMB98,000,000 (equivalent to approximately HK$112,337,000) paid to a pharmaceutical institute located in Beijing, the PRC (the "**Beijing Pharmaceutical Institute**") for the acquisition of certain technical knowhow of recombinant human epidermal growth factor technology ("**New Technical Knowhow**"). Pursuant to the agreement between the Group and the Beijing Pharmaceutical Institute, the consideration of the New Technical Knowhow amounted to RMB200,000,000 (equivalent to approximately HK$229,255,000). If the Beijing Pharmaceutical Institute cannot properly register the New Technical Knowhow to the respective PRC government authority by 31 December 2011, the amount of deposit paid will be fully refundable to the Group.

(3) During the year ended 30 June 2009, the Group had entered into a contract for the promotion and advertising of its products in the PRC. The contract will expire on 31 March 2011 and the remaining contract sum prepaid was reclassified to current assets accordingly during the current year.

27. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**17,163**	13,093
Finished goods	**16,021**	14,246
	33,184	27,339

28. TRADE RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**494,267**	439,979
Less: Impairment loss	**(1,905)**	(652)
	492,362	439,327

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of up to 180 days and extended to one year for certain customers with long-established relationship and good past repayment history. The Group does not hold any collateral over these balances.

An aged analysis of the trade receivables net of impairment loss at the end of the reporting period, based on the invoice date, is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**242,480**	184,851
91 – 180 days	**152,405**	158,642
181 – 365 days	**96,890**	95,834
Over 365 days	**587**	–
	492,362	439,327

28. TRADE RECEIVABLES (continued)

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtors from the date on which credit was initially granted, the directors believe that there was no further credit provision required in excess of the accumulated impairment loss already provided for in the consolidated financial statements.

The movements in impairment loss of trade receivables were as follows:

	2010	2009
	HK$'000	*HK$'000*
At 1 July	**652**	654
Exchange realignment	**17**	(2)
Recognised during the year	**1,236**	–
At 30 June	**1,905**	652

Included in the provision for impairment of trade receivables are individually impaired receivables with an aggregate balance of HK$1,905,000 (2009: HK$652,000). 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 is recognised. The Group does not hold any collateral over these receivables.

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**491,775**	439,327
Over 365 days past due	**587**	–
	492,362	439,327

The Group's neither past due nor impaired trade receivables relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, management believes that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Prepayments	**149,896**	82,271
Other receivables	**134,350**	4,524
Deposits	**704**	441
Prepaid lease payments	**472**	2,160
	285,422	89,396

For the year ended 30 June 2010, included in other receivables are consideration receivable of approximately HK$127,935,000 for the disposal of the prepaid lease payments during the year. Details are set out in Note 20.

The movements in impairment loss of other receivables were as follows:

	2010	2009
	HK$'000	*HK$'000*
At 1 July	**–**	–
Recognised during the year	**938**	–
At 30 June	**938**	–

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$938,000 (2009: Nil) which had been long outstanding. The Group does not hold any collateral over these balances.

30. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 30 June 2010 included amounts of approximately HK$1,374,245,000 (2009: HK$718,303,000) denominated in RMB which is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carry interest at market rates which range from 0.01% to 0.36% (2009: 0.01% to 0.36%) per annum.

31. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

In accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA, the related assets, liabilities and reserves of Magic Group were accounted for as assets classified as held for sale, liabilities directly associated with assets classified as held for sale and amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale, respectively. The following amounts represent the assets and liabilities of Magic Group as at 30 June 2010, which are presented separately in the consolidated statement of financial position at 30 June 2010.

		2010
		HK$'000
(A)	**Assets**	
	Property, plant and equipment	**1,393**
	Goodwill	**15,772**
	Intangible asset	**26,746**
	Deferred tax asset	**1,346**
	Deposits and prepayments	**13,698**
	Inventories	**8,541**
	Trade receivables	**111,588**
	Other receivables, deposits and prepayments	**91,369**
	Bank balances and cash	**49,475**
		319,928
(B)	**Liabilities**	
	Trade payables	**29,458**
	Other payables and accrued expenses	**23,744**
	Amount due to a shareholder	**11,780**
	Derivative financial instruments	**5,100**
	Tax payable	**11,575**
	Deferred tax liabilities	**6,687**
		88,344
(C)	**Cumulative income or expense recognised directly in equity**	
	Non-controlling interests	**5,188**
	Share award reserve	**11,269**
	Exchange reserve	**11,425**
		27,882

32. TRADE PAYABLES

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

	2010	2009
	HK$'000	*HK$'000*
Within 90 days	**27,329**	39,492
91 – 180 days	**6,905**	3,370
181 – 365 days	**779**	1,531
Over 365 days	**2,000**	1,697
	37,013	46,090

The average credit period on purchases of goods ranged from 90 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

33. OTHER PAYABLES AND ACCRUED EXPENSES

	2010	2009
	HK$'000	*HK$'000*
Accrued expenses	**22,678**	28,491
Receipt in advance	**948**	1,448
Other payables	**14,770**	35,818
	38,396	65,757

34. OBLIGATION UNDER A FINANCE LEASE

The lease term of the finance lease was five years. Interest rate is fixed at 3.75% at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	95	–	74	–
In more than one year, but not more than two years	95	–	78	–
In more than two years, but not more than five years	221	–	203	–
	411	–	355	–
Less: future finance charges	(56)	–	N/A	N/A
Present value of lease obligation	355	–		
Less: Amount due for settlement within twelve months (shown under current liabilities)			(74)	–
Amount due for settlements after twelve months			281	–

For the year ended 30 June 2010, the Group's obligation under a finance lease is secured by the lessor's charge over the leased assets.

The obligation under a finance lease is denominated in HK$.

35. BANK BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Analysed as:		
Secured	**24,692**	44,185
Unsecured	**30,834**	27,838
	55,526	72,023

	2010	2009
	HK$'000	*HK$'000*
Carrying amounts repayable:		
On demand or within one year	**55,526**	69,827
More than one year but not exceeding two years	**–**	131
More than two years but not exceeding five years	**–**	391
More than five years	**–**	1,674
	55,526	72,023
Less: Amounts due within one year shown under current liabilities	**(55,526)**	(69,827)
	–	2,196

At 30 June 2010 and 2009, the Group's bank borrowings are secured by the Group's buildings of approximately HK$32,669,000 (2009: HK$36,034,000) *(Note 19)* and prepaid lease payments of approximately HK$4,386,000 (2009: HK$4,413,000) *(Note 20)*. Further, for the year ended 30 June 2009, the Group's bank borrowings are further secured by the Group's plant and machinery of approximately HK$24,905,000 *(Note 19)*.

In addition to the above, during the year ended 30 June 2009, Mr. Zhang Peter Y. and Mr. Deng Jie had also undertaken certain covenants in relation to a syndicated loan utilised by the Group. Mr. Zhang Peter Y. and Mr. Deng Jie are directors and beneficial shareholders of Bull's-Eye Limited, a substantial shareholder of the Company. The syndicated loan had been fully repaid during the year ended 30 June 2009.

35. BANK BORROWINGS (continued)

During the year and as at 30 June 2009, the Group was in breach of a covenant under the terms of the syndicated loan, as the repayment of three instalments of a total of HK$58,841,000 were delayed. As at 30 June 2009, the principal portion of the syndicated loan had been fully repaid. The interest payable of HK$91,000 in relation to such loan was settled during the year ended 30 June 2010.

The exposure of the Group's loans is as follows:

	2010	2009
	HK$'000	*HK$'000*
Fixed-rate loans	**24,692**	69,700
Variable-rate loans	**30,834**	2,323
	55,526	72,023

The Group's variable-rate loans carry interest at the base rate published by the People's Bank of China plus 5% per annum.

The ranges of the effective interest rates which are also equal to contracted interest rates on the Group's loans are as follows:

	2010	2009
Effective interest rates:		
Fixed-rate loans	**5.841%**	5.841% to 8.217%
Variable-rate loans	**5.576%**	5.576%

All bank borrowings are denominated in RMB.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	HK$'000
Opening balance	–
Addition	49,072
Fair value changes recognised in the consolidated income statement	
– continuing	(21,193)
– discontinuing	(17,245)
Closing balance	10,634
Less: classified as liabilities directly associated with assets classified as held for sale *(Note 31)*	(5,100)
Closing balance (from continuing operations)	5,534

On 10 November 2009, the Company and Magic Holdings have entered into a share subscription and sale and purchase agreement (the "**SI Investment Agreements**") with three strategic investors, (the "**Subscribers**") in relation to (1) subscription of an aggregate of 1,739 subscription shares (the "**Subscription Shares**") of Magic Holdings for a consideration of HK$62,400,000 ("**Subscription Price**") and (2) sale and purchase of an aggregate of 1,887 shares of Magic Holdings ("**Sale Shares**") held by the Group for a consideration of HK$67,704,000 ("**Purchase Price**"). Pursuant to the SI Investment Agreements, the Subscribers are entitled to certain price adjustment (the "**Price Adjustment**") and a put option (the "**Put Option**") by directing the Company and Magic Holdings to purchase all or part of the Sales and Subscription Shares.

Further details of the SI Investment Agreements (including information of the Price Adjustment and the Put Option) are detailed in the announcement of the Company dated 10 November 2009 and the circular of the Company dated 29 June 2010.

The derivative features of the Subscription Shares and Sales Shares are recognised as derivative financial instruments. On issuance of the Subscription Shares and the sale of Sales Shares, the fair value of the derivative component was determined based on valuation; and this amount is carried as a derivative component of a liability until extinguished upon the fulfillment of the conditions as detailed above. The derivative component is remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the consolidated income statement.

With the effect of the Subscription Shares and Sales Shares, the Group's equity interests in Magic Group is diluted and decreased by 9.44% and 3.2% respectively and the amount of non-controlling interests increased by HK$54,168,000. The remainder of the proceeds received by the Group as results of the Subscription Shares and Sales Shares, after deducting the effect of non-controlling interests and the derivative components of Subscription Shares and Sales Shares, is recorded in equity as other reserve.

36. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of the Price Adjustment and the Put Options (the "**Derivatives**") are estimated by management with reference to a valuation performed by Asset Appraisal Limited, an independent professional valuer, by using a Binomial Option Pricing Model.

The directors of the Company have estimated the fair value of the Derivatives as HK$49,072,000 at the date of the completion of the issuance of Subscription Shares and sale of Sales Shares. The fair value changes in derivatives of HK$38,438,000 (in which HK$17,245,000 was included in profit for the year from discontinuing operations) have been included in the consolidated income statement for the year ended 30 June 2010.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Statement of financial position information of the Company at the reporting date is as follows:

	Notes	**2010** **HK$'000**	2009 HK$'000
Non-current assets			
Investments in subsidiaries	*38*	**133,703**	133,703
Current assets			
Amounts due from subsidiaries	*39*	**1,147,533**	523,340
Prepayments		**180**	40
Bank balances and cash		**31,453**	5
		1,179,166	523,385
Current liabilities			
Amounts due to subsidiaries	*39*	**–**	4,073
Other payables and accrued expenses		**1,554**	5,931
		1,554	10,004
Liabilities directly associated with assets classified as held for sale		**4,073**	–
		5,627	10,004
Net current assets		**1,173,539**	513,381
Total assets less current liabilities		**1,307,242**	647,084
Capital and reserves			
Share capital	*40*	**160,234**	132,110
Reserves	*41(b)*	**1,098,938**	477,983
Proposed final dividend	*17*	**48,070**	36,991
		1,307,242	647,084

38. INVESTMENTS IN SUBSIDIARIES

	2010	2009
	HK$'000	*HK$'000*
Unlisted investments, at cost	**133,703**	133,703

Details of the principal subsidiaries held by the Company as at 30 June 2010 and 2009 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group 2010	2009	Principal activities
Direct subsidiaries							
Intended Features Limited	Ordinary shares	BVI	BVI	375,875 ordinary shares of US$1 each	100%	100%	Investment holding
Indirect subsidiaries							
GHMM* [6]	Ordinary shares	PRC	PRC	499,829,420 ordinary shares of HK$1 each	100%	100%	Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products
貴州漢方息烽藥業有限公司**	Ordinary shares	PRC	PRC	3,000,000 ordinary shares of RMB1 each	95%	95%	Property holding
Factorr Universal Limited ("Factorr") [4]	Ordinary shares	BVI	BVI	200 ordinary shares of US$1 each	92.02%	75%	Investment holding
Guizhou Factorr ** [4]	Ordinary shares	PRC	PRC	100,000,000 ordinary shares of HK$ 1 each	75%	75%	Manufacture and sale of biological medicine

38. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group		Principal activities
					2010	2009	
廣東群禾藥業有限公司** (“廣東群禾”) ** [1, 2]	Ordinary shares	PRC	PRC	10,000,000 ordinary shares of RMB 1 each	36.4%	49%	Trading of medicinal healthcare products
廣州美即化妝品有限公司 (“Guangzhou Magic”) [2]	Ordinary shares	PRC	PRC	40,000,000 ordinary shares of HK$1 each	36.4%	49%	Manufacture and sale of medicinal healthcare products
海南洋浦正瀚貿易有限公司 (“海南洋浦”) ** [1, 2] *(Note 44)*	Ordinary shares	PRC	PRC	1,000,000 ordinary shares of RMB1 each	–	49%	Trading of medicinal healthcare products
DCX*** [3, 7]	Ordinary shares	PRC	PRC	200,000,000 ordinary shares of RMB1 each	99.7%	98%	Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products
Magic Holdings [2, 5]	Ordinary shares	BVI	BVI	21,739 ordinary shares of US$1 each	36.4%	49%	Investment holding
桂林華諾威基因藥業有限公司 (“華諾威”) **	Ordinary shares	PRC	PRC	US$1,400,000	52%	52%	Manufacture and sale of bio-pharmaceutical medicine
桂林古今醫藥科技有限公司 (“古今”) **	Ordinary shares	PRC	PRC	1,000,000 ordinary shares of RMB 1 each	80%	80%	Investment holding
貴州漢方國美醫藥有限公司 (“國美”) **	Ordinary shares	PRC	PRC	5,000,000 ordinary shares of RMB 1 each	100%	100%	Trading of pharmaceutical products
北京東麗盛化妝品有限公司 (“北京東麗盛”) ** [2]	Ordinary shares	PRC	PRC	5,000,000 ordinary shares of RMB 1 each	25.48%	34%	Sale of medicinal healthcare products

38. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

* Registered as wholly-foreign-owned enterprises under the laws of the PRC

** Registered as domestic enterprises under the laws of the PRC

*** Registered as foreign invested enterprises under the laws of the PRC

[1] On 13 July 2008, the Group has undergone a reorganisation exercise ("**Reorganisation**") and the equity interest in 廣東群禾 and its subsidiary, 海南洋浦 (collectively the "**Qunhe subgroup**"), were transferred from GHMM to Magic Holdings. Pursuant to the Reorganisation, the equity interest of the Group in the Qunhe subgroup was reduced from 70% to 49%. The Reorganisation was a non-cash transaction and resulted a loss on deemed disposal of subsidiaries of HK$1,836,000 recognised in the consolidated income statement.

[2] 北京東麗盛 is indirectly held as to 70% by Magic Holdings, a 36.4%-owned (2009: 49%-owned) subsidiary of the Company. Pursuant to a written undertaking (the "**Voting-in-Concert Undertakings**") made by two shareholders (2009: one shareholder) (the "**Shareholder(s)**") holding an aggregate of 26.27% (2009: 10%) equity interests and voting right in Magic Holdings, the Shareholder will vote in accordance with the Group's decisions. Accordingly, the directors consider that the Group has control over Magic Holdings. Therefore, 北京東麗盛, Guangzhou Magic, Magic Holdings, 廣東群禾 and 海南洋浦 are regarded as subsidiaries of the Group.

[3] On 18 June 2009, a capital injection in cash of RMB17,600,000 (equivalent to approximately HK$19,949,000) was made by the Group to DCX and the registered capital of DCX was increased from RMB8,344,800 (equivalent to approximately HK$7,799,000) to RMB25,900,000 (equivalent to approximately HK$27,748,000). Immediately upon the capital injection, the equity interest in DCX held by the Group increased from 93% to 98%. A gain on deemed acquisition of additional interests of HK$7,738,000 was recognised in the consolidated income statement and included in other income and gains (Note 10).

[4] On 22 July 2009, the Group entered into an agreement with the non-controlling interest of Factorr, a 75%-owned subsidiary of the Company, to acquire 17.02% equity interest in Factorr at a consideration of RMB18,880,000. In addition, the Group entered into another agreement with two independent third parties to dispose of 18.5% equity interest in Guizhou Factorr, the then wholly-owned subsidiary of Factorr, to these two independent third parties at an aggregate consideration of RMB18,880,000. At the same time, the registered capital of Guizhou Factorr was changed from HK$100,000,000 to RMB102,000,000. The acquisition and disposal were completed on 22 July 2009 and thereafter, the effective equity interest in Factorr held by the Group increases from 75% to 92.02% while the effective equity interest in Guizhou Factorr remained unchanged. No material gain or loss was resulted.

38. INVESTMENTS IN SUBSIDIARIES (continued)

Notes: (continued)

5 As detailed in Note 36, on 10 November 2009, the Group, Magic Holdings and the Subscribers entered into the SI Investment Agreements, pursuant to which the Subscribers will subscribe 1,739 Subscription Shares and the sale and purchase of 1,887 Sales Shares. The transaction resulted in a deemed partial disposal of approximately 3.2% and partial disposal of approximately 9.44%, representing an aggregate decrease in interest from 49% to 36.4%. The above transactions resulted in a gain of approximately HK$26,100,000 and was recognised directly in equity and included in other reserve.

6 On 26 April 2010, a capital injection in cash of RMB299,003,000 (equivalent to approximately HK$340,000,000) was made by the Group to GHMM and the registered capital of GHMM was increased from RMB168,111,000 (equivalent to approximately HK$159,829,000) to RMB467,114,000 (equivalent to approximately HK$499,829,000). The capital injection did not result in any percentage change of equity interest held by the Group.

7 On 29 April 2010, a capital injection in cash of RMB174,100,000 (equivalent to approximately HK$198,066,000) was made by the Group to DCX and the registered capital of DCX was increased from RMB25,900,000 (equivalent to approximately HK$29,934,000) to RMB200,000,000 (equivalent to approximately HK$228,000,000). Immediately upon the capital injection, the equity interest in DCX held by the Group was increased from 98% to 99.7%. A gain on deemed acquisition of additional interests of HK$8,906,000 was recognised directly in equity and included in other reserve.

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 portion 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.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand.

40. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary share of HK$0.10 each		
Authorised:		
At 1 July 2008, 30 June 2009 and 30 June 2010	**2,000,000,000**	200,000
Issued and fully paid:		
At 1 July 2008	**880,734,400**	88,073
Open offer *(Note (a))*	**440,367,200**	44,037
30 June 2009	**1,321,101,600**	132,110
Issue of shares upon placing *(Note (b))*	**264,740,000**	26,474
Issue of shares upon exercise of share options *(Note (c))*	**16,500,000**	1,650
30 June 2010	**1,602,341,600**	160,234

Notes:

(a) During the year ended 30 June 2009, the Company made an open offer of one offer share for every two existing shares held by members on the register of members on 28 May 2009 (the "**Open Offer**") at a subscription price of HK$0.50 per offer share, resulting in the issue of 440,367,200 offer shares of HK$0.10 each for a total cash consideration of approximately HK$217,040,000 (net of expenses of HK$3,144,000), which were used for repayment of syndicated loan.

(b) On 14 April 2010, the Company entered into a placing agreement with financial institutions to place 264,740,000 new shares of the Company at HK$2.67 per share. The placing was completed on 27 April 2010. The new shares rank pari passu with the existing shares in all respects.

(c) During the year ended 30 June 2010, an aggregate of 16,500,000 share options had been exercised by certain directors of the Company and employees of the Group at a subscription price of HK$0.98 per share for a total consideration of HK$16,170,000, resulting in an issue of 16,500,000 new ordinary shares of HK$0.10 each. The new shares rank pari passu with the existing shares in all respect.

41. RESERVES

(a) The Group

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

The share premium account of the Group includes shares issued at a premium, and the difference between the nominal value of the aggregate share/registered capital of the subsidiaries acquired pursuant to the group reorganisation completed in 2002 (the "**Group Reorganisation**"), and the nominal value of the Company's shares issued in exchange therefor.

In accordance with regulations in the PRC, each of the Group's subsidiaries in the PRC is required to transfer part of its profit after tax to its statutory reserve fund, until the reserve reaches 50% of the registered capital, before profit distributions are made. The statutory reserve fund is non-distributable. The amount of transfer is subject to the approval of the boards of directors of these companies in accordance with their articles of association.

(b) The Company

	Share premium	**Share option reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008	359,185	–	(7,859)	351,326
Open offer	176,147	–	–	176,147
Share issue expenses	(3,144)	–	–	(3,144)
Loss for the year	–	–	(9,355)	(9,355)
Proposed final dividend	–	–	(36,991)	(36,991)
At 30 June 2009	532,188	–	(54,205)	477,983
Issue of shares upon placing	680,382	–	–	680,382
Share issue expenses	(16,726)	–	–	(16,726)
Recognition of equity-settled share-based payments	–	26,480	–	26,480
Issue of share upon exercise of share options	18,694	(4,174)	–	14,520
Loss for the year	–	–	(35,631)	(35,631)
Proposed final dividend	–	–	(48,070)	(48,070)
At 30 June 2010	1,214,538	22,306	(137,906)	1,098,938

41. RESERVES (continued)

(b) The Company (continued)

The share premium account of the Company includes share premium of HK$1,127,698,000 (2009: HK$445,348,000) and the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor of HK$86,840,000 (2009: HK$86,840,000) pursuant to the Group Reorganisation.

Under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

42. DEFERRED TAXATION

The following are the major deferred tax recognised and movements thereon during the current and prior reporting periods.

Deferred tax liabilities

	Withholding tax *HK$'000*	**Fair value adjustments arising from acquisition of subsidiaries** *HK$'000*	**Revaluation of leasehold buildings** *HK$'000*	**Total** *HK$'000*
At 1 July 2008	6,600	79,834	2,586	89,020
Exchange realignment	–	(212)	(9)	(221)
Charged to consolidated statement of comprehensive income for the year	–	–	449	449
Credited to consolidated income statement for the year				
– continuing operations	(6,600)	(5,546)	–	(12,146)
– discontinuing operations	–	(947)	–	(947)
At 30 June 2009	–	73,129	3,026	76,155
Exchange realignment	–	834	32	866
Credited to consolidated statement of comprehensive income for the year	–	–	1,578	1,578
Credited to consolidated income statement for the year				
– continuing operations	–	(6,249)	–	(6,249)
– discontinuing operations	–	(948)	–	(948)
Deferred tax liabilities associated with assets classified as held for sale	–	(6,687)	–	(6,687)
At 30 June 2010	–	60,079	4,636	64,715

42. DEFERRED TAXATION (continued)

Deferred tax assets

	Deductible temporary differences *HK$'000*
At 1 July 2008	–
Credited to consolidated income statement for the year	
– continuing operations	262
– discontinuing operations	845
At 30 June 2009	1,107
Exchange realignment	45
Credited to the consolidated income statement for the year	
– continuing operations	5,864
– discontinuing operations	501
Deferred tax assets associated with assets classified as held for sale	(1,346)
At 30 June 2010	6,171

The Group has no tax losses available for offsetting against future taxable profits.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008. During the two years ended 30 June 2010 and 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the directors, the Group is able to control the timing of the reversal of the temporary differences and it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future. As at 30 June 2010, the aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounting to approximately HK$56,796,000 (2009: HK$33,424,000).

43. SHARE OPTION SCHEME

Employees' share option scheme of the Company

The Company operates a share option scheme (the "**Scheme**"), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives and rewards to selected eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons who provide research, development and technological support to the Group, shareholders of the Company's subsidiaries and advisers to the business development of the Group. The Scheme became effective on 25 November 2002 and unless otherwise cancelled or amended the scheme will remain in force for 10 years from 25 November 2002, the date on which the Scheme was conditionally adopted.

At 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 71,500,000 (at the date of grant: 88,000,000), representing 4.5% (at the date of grant: 6.7%) of the shares of the Company in issue at that date. The total number of securities which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of the limit. The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Any share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options to be granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

43. SHARE OPTION SCHEME (continued)

Employees' share option scheme of the Company (continued)

The offer of a grant of share options may be accepted within 21 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 broad of directors, and commences from the date of acceptance of the grant of options and ends on a date which is not later than 10 years from the date of the grant of the share options subject to the provisions for early termination under the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of a share of the Company; (ii) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

The share options granted under the scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted during the year ended 30 June 2009 and no share option was outstanding under the Scheme as at 30 June 2009.

On 17 August 2009, 23,400,000 and 64,600,000 share options were granted by the Company to the directors of the Company and to certain employees of the Group, respectively, in respect of their services to the Group in the forthcoming years. These share options vested on 17 August 2009 and each has an exercise price of HK$0.98 and an exercise period ranging from 17 August 2009 to 16 August 2011. The price of the Company's share at the date of grant was HK$0.98 per share.

On 15 December 2009, 22 December 2009 and 21 June 2010, respectively, share options of 2,600,000, 3,900,000 and 10,000,000, totaling to 16,500,000 share options were exercised by certain directors and employees of the Company at a subscription price of HK$0.98 per share.

43. SHARE OPTION SCHEME (continued)

Employees' share option scheme of the Company (continued)

Movements of the share options during both years are set out below:

	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1 July 2009	Granted during 2010	Exercised during the year	Outstanding at 30 June 2010
Directors :							
Mr. Zhang Peter Y.	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	–	1,300,000
Mr. Deng Jie	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	–	1,300,000
Mr. Long Xian Feng	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	13,000,000	–	13,000,000
Mr. Bian Shu Guang*	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	–	1,300,000
Mr. Zhou Chong Ke**	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	10,000,000	–	10,000,000
Non-executive directors:							
Mr. Wee Ee Lim	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	(1,300,000)	–
Mr. Tarn Sien Hao	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	(1,300,000)	–
Independent non-executive directors:							
Professor Kung Hsiang Fu	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	(1,300,000)	–
Professor Tso Wung Wai	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	(1,300,000)	–
Mr. Hon Yiu Ming, Matthew	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	1,300,000	(1,300,000)	–
				–	33,400,000	(6,500,000)	26,900,000
Other employees	17.08.2009	17.08.2009 – 16.08.2011	0.98	–	54,600,000	(10,000,000)	44,600,000
				–	88,000,000	(16,500,000)	71,500,000

* *Mr. Bian Shu Guang retired as director by rotation at the annual general meeting of the Company held on 18 December 2009.*

** *Mr. Zhou Chong Ke was appointed as executive director of the Company on 7 April 2010.*

43. SHARE OPTION SCHEME (continued)

Employees' share option scheme of the Company (continued)

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.98.

The number of share options exercisable at the year ended 30 June 2010 is 71,500,000 shares (2009: Nil).

The weighted average exercise price of share options for the year ended 30 June 2010 is HK$0.98.

The fair value of the options granted on 17 August 2009 determined at the date of acceptance using the Binomial Option Pricing Model was HK$0.3009. The total fair value of the options granted was approximately HK$26,480,000 and was recognised during the year ended 30 June 2010.

The following assumptions were used to calculate the fair value of the share options.

	19 August 2009
Closing price at the date of acceptance	HK$0.92
Exercise price	HK$0.98
Expected volatility	68.97%
Expected life	1.13 years
Risk-free rate	0.579%
Expected dividend yield	1.956%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables or assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain subjective assumptions.

43. SHARE OPTION SCHEME (continued)

Share award plan of Magic Holdings

During the year ended 30 June 2010, the then shareholders and the directors of Magic Holdings have approved the adoption of the share award plan ("**Share Award Plan**"). The purpose of the Share Award Plan is to recognise and reward the contribution of the eligible participants to the growth and development of the Magic Group. These eligible participants include any employee of, shareholder of, entity that provides support to and adviser or consultant of, the Magic Group or its invested entities or any other entity who have contributed or may contribute by way of any business arrangement to the development and growth of the Magic Group.

The Share Award Plan would be in force for a period of 10 years commencing on the date on which the Share Award Plan was adopted.

Under the rules of the Share Award Plan (the "**Plan Rules**"), the Share Award Plan will be administered by the directors of Magic Holdings, who are also the directors of Magic Holdings International Limited. Mr. She and Mr. Tang are the trustees of the Share Award Plan (the "**Trustees**"). It is contemplated that the initial pool of shares of Magic Holdings ("**Magic Shares**") under the Share Award Plan, would be formed by the allotment and issue of Magic Shares which equals 5% of the issued shares of Magic Holdings on a fully diluted basis as enlarged by the allotment and issue of the Magic Shares under the Share Award Plan. The issue and allotment of the Magic Shares to the Trustees is conditional upon completion of the pre-listing share swap between Magic Holdings International Limited and the then equity holders of Magic Holdings (the "**Pre-listing Share Swap**") and will be issued and allotted to the Trustees immediately prior to the completion of the Pre-listing Share Swap.

The directors of Magic Holdings will determine the eligibility of those eligible participants to which share awards are to be made and the number of awarded shares to those selected participants pursuant to the Share Award Plan based on the selected participants' contribution to the development and growth of the Magic Group. The Trustees will hold the awarded shares on behalf of the selected participants until they are vested in accordance with the Plan Rules.

43. SHARE OPTION SCHEME (continued)

Share award plan of Magic Holdings (continued)

Pursuant to share award letters issued on 30 October 2009 to those eligible participants, an aggregate of 1,144 shares were granted at nil consideration. The awards were deemed to be irrevocably accepted by those eligible participants on 30 October 2009 unless the eligible participants notify the Magic Group to decline to accept the award within three business days in writing after the receipt of such notice. There is no other performance target required except the eligible participant remained as the employee of the Magic Group. Among the share awards granted on 30 October 2009, 458 share awards are granted to certain directors and/or shareholders of the Magic Holdings International Limited, who are also the senior management of the Magic Group, (collectively the "**Management Shareholders**"), and would be vested immediately on 6 September 2010 according to the rule of the Share Award Plan. The remaining 686 share awards are granted to the senior management and employees of the Magic Group, which are evenly divided into five tranches and would be vested (upon the latter of the date immediately prior to the Pre-listing Share Swap and the dates as detailed below) in the following manner:

Maximum number of awarded shares to be vested	Period
20% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2011 (but excluding 30 June 2011), and where the listing of the Company's shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2012 (but excluding 30 June 2012)
40% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2012 (but excluding 30 June 2012), and where the listing of the Company's shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2013 (but excluding 30 June 2013)
60% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2013 (but excluding 30 June 2013), and where the listing of the Company's shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2014 (but excluding 30 June 2014)

43. SHARE OPTION SCHEME (continued)

Share award plan of Magic Holdings (continued)

Maximum number of awarded shares to be vested	Period
80% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2014 (but excluding 30 June 2014), and where the listing of the Company's shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2015 (but excluding 30 June 2015)
100% of the total number of awarded shares	Period commencing from the first business day immediately after 30 June 2015 (but excluding 30 June 2015), and where the listing of the Company's shares has not taken place on or before 30 June 2010, the vesting period shall be postponed to the first business day immediately after 30 June 2016 (but excluding 30 June 2016)

Under the rule of the Plan Rules, the employees of the Magic Group shall not have any right to receive any shares awarded to them under the Share Award Plan and all other interest attributable thereto unless and until the Trustees have transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be Magic Group's employee, the unvested shares would be retained by the Trustees.

The fair values of the above share awards granted to the Management Shareholders and employees were HK$9,280,000 and HK$12,434,000, respectively, of which the Magic Group recognised an aggregate share award expenses of HK$11,269,000 in the combined income statement during the year ended 30 June 2010. The fair values of the share awards granted have been estimated, with reference to a valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent professional valuer, by applying the discounted cash flow model using cash flow projections based on financial budgets covering a five-year period approved by the senior management. The discount rate applied to cash flow projections is 13.67%. The cash flows beyond five-year period of the Magic Holdings International Limited are extrapolated using a growth rate of 3%.

43. SHARE OPTION SCHEME (continued)

Share award plan of Magic Holdings (continued)

The directors of the Magic Holdings International Limited believes that the estimated fair values of the above share awards resulting from the above valuation technique are reasonable and the fair values are appropriate at the end of the reporting period.

Subsequent to the end of reporting period, on 19 August 2010, Mr. Tang, Mr. Luo, Mr. She, thereof the Management Shareholders (the "**Three Management Shareholders**") and four members of senior management and employees (the "**Other Grantees**") of the Magic Group each entered into an agreement with Magic Holdings whereby each of them will not accept an aggregate number of 490 shares, divided as to 412 shares and 78 shares between the Three Management Shareholders and the Other Grantees, respectively, of Magic Holdings proposed to be granted to them under the Share Award Plan. The Other Grantees are Ms. Wen Yan Juan, who is the spouse of Mr. Luo, Ms. Wu, Ms. She Ming Hong, who is the sister of Mr. She and Mr. Zhang Quan, who is the brother of Mr. Zhang Peter Y., a director of the Company.

Employees' share option scheme of Magic Holdings

Subsequent to the end of reporting period, on 19 August 2010, Magic Holdings conditionally adopted a share option scheme (the "**Magic Holdings Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Magic Group's operations. Eligible participants of the Magic Holdings Scheme include Magic Holdings' directors and other employees of the Magic Group. The Magic Holdings Scheme became unconditional and effective upon listing of the shares of Magic Holdings International Limited on 24 September 2010 and, unless otherwise cancelled, amended or terminated in accordance with the Magic Holdings Scheme, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Magic Holdings Scheme is an amount equivalent, upon their exercise, to 30% of the shares of Magic Holdings or, upon the listing, the shares of Magic Holdings International Limited in issue at any time. The maximum number of shares issuable under the share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of Magic Holdings or, upon the listing, the shares of Magic Holdings International Limited in issue at any time. Any further grant of share options in excess of this limit is subject, upon the listing, to shareholders' approval in a general meeting of Magic Holdings International Limited.

43. SHARE OPTION SCHEME (continued)

Employee's share option scheme of Magic Holdings (continued)

Share options granted to a director, chief executive or substantial shareholder of Magic Holdings International Limited, or to any of their associates, are upon the listing subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of Magic Holdings International Limited, or to any of their associates, in excess of 0.1% of the shares of Magic Holdings International Limited in issue at any time or with an aggregate value (based on the price of Magic Holdings International Limited shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are upon the listing subject to shareholders' approval in advance in a general meeting of Magic Holdings International Limited.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the share award plan of Magic Holdings, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of Magic Holdings International Limited shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of Magic Holdings International Limited shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

44. DISPOSAL OF A SUBSIDIARY

During the year ended 30 June 2010, 廣東群禾 entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interest in 海南洋浦 at a cash consideration of RMB1,000,000 (approximately HK$1,136,000).

	HK$'000
Net assets disposed of:	
Other receivable	1,136
Exchange reserve realised	(1,369)
	(233)
Gain on disposal	1,369
Consideration	1,136
Satisfied by cash	1,136

44. DISPOSAL OF A SUBSIDIARY (continued)

	HK$'000
Net cash inflow arising on disposal	
Cash consideration	1,136

The subsidiary disposed of during the year did not contribute to the Group's revenue and profit for the year ended 30 June 2010, and had no significant impact on the Group's operating, investing and operating cash flows for the year ended 30 June 2010.

45. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the consolidated financial statements, the Group also had the following material related party transactions/balances:

(i) During the year ended 30 June 2010, the Group disposed of the leasehold building to Mr. She, a director of Magic Holdings International Limited and his spouse at a consideration of HK$4,713,000, which represented the carrying value of that building at the date of transfer. The respective mortgage loan with a carrying amount of HK$2,265,000 has also been taken up by Mr. She. The net consideration of HK$2,448,000 has been settled via the current accounts with MG Company Limited, a related company beneficially owned by Mr. She. The transaction is non-recurring.

(ii) During the year ended 30 June 2010, Magic Group has engaged Guangzhou Zhonghe Cosmetic Company Limited ("**GZCCL**"), of which the spouse of Mr. She and the daughter of Mr. Luo are two of the equity holders and directors, for production of Magic Group's products. Magic Group has paid service fee of HK$205,000 (2009: HK$34,000) to GZCCL during the year ended 30 June 2010. The transaction is non-recurring since GZCCL ceased to be related after the spouse of Mr. She and the daughter of Mr. Luo have resigned as the directors of GZCCL and transferred their interests in GZCCL to independent third parties in March 2010.

(b) Compensation of key management personnel

The remuneration of directors and key management personnel during the year are set out in Note 15. The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trend.

46. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	2010	2009
	HK$'000	*HK$'000*
Contracted but not provided for		
Acquisition of property, plant and equipment	**15,990**	15,824
Acquisition of technical knowhow	**117,585**	11,344
Acquisition of patent	**22,926**	22,688
Acquisition of additional interest in a subsidiary	**27,224**	–
	183,725	49,856

47. OPERATING LEASE COMMITMENTS

The Group as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for original terms ranging from one to two years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,723**	2,490
In the second to fifth year inclusive	**2,827**	170
More than five years	**44**	–
	4,594	2,660

Leases are negotiated for a term of two years with fixed rentals over the term of the lease.

48. NON-CASH TRANSACTIONS

During the year ended 30 June 2010, prepaid lease payment had been disposed for a consideration of HK$127,935,000. The consideration receivable had been included in other receivables in the consolidated statement of financial position.

During the year ended 30 June 2010, the Group entered into a finance lease arrangement in respect of asset with a capital value at inception of the lease of HK$400,000.

49. EVENTS AFTER THE REPORTING PERIOD

(1) The Group had entered into an Equity Transfer Agreement to further acquire 20% of the equity interest in Guilin Gu Jin Pharmaceutical Technology Co. Ltd. ("**Guilin Gu Jin**"). Subsequent to the end of the reporting period, the Group had settled the remaining consideration of RMB23,750,000 (equivalent to approximately HK$27,224,000). The acquisition was completed in August 2010 upon the change of shareholder of Guilin Gu Jin registered at the relevant Administration of Industry and Commerce.

(2) On 1 April 2010, the Group announced a possible major deemed disposal transaction by way of spin-off and separate listing of its subsidiaries, Magic Group, which are principally engaged in the research and development, manufacture and sale of feminine medicinal healthcare products specialising in facial masks and skincare products on the Main Board of the Stock Exchange. Upon completion of the proposed spin-off, the Group's interest in Magic Group would be diluted from 36.4% to 25.94% on the date of listing. After the cancellation of the Voting-in-Concert Undertakings, Magic Group will cease to be subsidiaries of the Company, and the Group's interests in Magic Group will be accounted for as an associate using equity method.

Magic Group was successfully listed on 24 September 2010.

(3) On 11 October 2010, the Company entered into a memorandum of understanding ("**Memorandum of Understanding**") with National Vaccine & Serum Institute ("**NVSI**"), an independent third party and a limited liability company established in the PRC, to set out the basic understanding between the parties thereto in connection with the establishment of a joint venture (the "**Joint Venture**") in Guizhou Province in the PRC for the research and development, manufacture and sales of placenta related bio-pharmaceutical products. The intended total investment amount and the registered capital of the Joint Venture will be ranging from approximately RMB30,000,000 to RMB50,000,000.

The Memorandum of Understanding provides that the Group will provide funding while NVSI will provide well-developed technical know-how and bio-pharmaceutical medicine products, including placenta pills, placenta blood albumin injection and placenta tissue fluid injection.

Details of the above have been set out in the Company's announcement dated 11 October 2010.

(4) On 27 October 2010, the Board proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by shareholders whose name appear on the register on 17 December 2010. The bonus shares will rank pari passu in all respects with the existing shares. Details are set out in the Company's announcement dated 27 October 2010.

50. COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation. The directors of the Company consider that reclassification of commission expenses from cost of sales to selling and distribution expenses in the consolidated income statement is more meaningful.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years.

RESULTS

	Year ended 30 June				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**808,642**	649,154	806,204	743,856	627,925
Profit before tax	**322,430**	157,925	214,496	174,322	154,522
Tax	**(77,962)**	(39,219)	(58,247)	(36,169)	(27,135)
Profit for the year from continuing operation	**244,468**	118,706	156,249	138,153	127,387
Profit for the year from discontinuing operation	**117,446**	66,228	–	–	–
Profit for the year	**361,914**	184,934	156,249	138,153	127,387
Attributable to:					
Owners of the Company	**265,300**	147,853	144,184	130,626	123,146
Non-controlling interests	**96,614**	37,081	12,065	7,527	4,241
	361,914	184,934	156,249	138,153	127,387

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 30 June				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,428,917**	2,172,748	2,204,321	1,651,773	1,181,812
Total liabilities	**(346,271)**	(300,408)	(672,821)	(588,862)	(303,791)
Non-controlling interests	**(388,498)**	(243,551)	(224,878)	(48,035)	(36,572)
	2,694,148	1,628,789	1,306,622	1,014,876	841,449