China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00512

2010

Annual Report

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr Lau Wing Yuen

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
Mr Lau Wing Yuen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Roger Ho & Co.
Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKER

HSBC
China Construction Bank
China Merchants Bank
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 6211-12, The Center
99 Queen's Road Central, Hong Kong

BUSINESS REVIEW

For the year ended 31 December 2010, the following events have taken place:

(1) On 15 January 2010, Outwit Investments Limited ("Outwit") entered into a placing agreement and agreed to place 200,000,000 existing shares of the Company at HK$0.45 per share to independent third parties ("Placing"). Outwit also entered into a subscription agreement with the Company and agreed to subscribe for 200,000,000 new ordinary shares of the Company at the subscription price equal to the proceeds from successfully placed shares, less any commission, costs, expenses and charges paid by Outwit pursuant to and in connection with the Placing ("Subscription"). Details of the Placing and the Subscription are set out in the circular of the Company dated 28 January 2010. An ordinary resolution approving the Subscription was passed at the special general meeting of the Company held on 12 February 2010. The Subscription was completed on 18 February 2010, and 200,000,000 new ordinary shares of the Company were issued and allotted to Outwit.

(2) On 18 February 2010, Outwit fully exercised its conversion right in the convertible bond and converted the convertible bond at its par value of HK$50,000,000 into 166,666,667 new ordinary shares of HK$0.01 each in the share capital of the Company at the conversion price of HK$0.3 per share.

(3) On 24 February 2010, 武漢遠大弘元股份有限公司 Wuhan Grand Hoyo Company Limited ("Wuhan Hoyo") amended its Articles of Association such that 武漢遠大製藥集團有限公司 Wuhan Grand Pharmaceutical Group Company Limited, currently known as 遠大醫藥(中國)有限公司 (China Grand Pharmaceutical (China) Company Limited) ("Wuhan Grand") shall have the right to nominate 4 out of 7 directors of Wuhan Hoyo. On 24 February 2010, an additional director was nominated by Wuhan Grand and appointed to the board of Wuhan Hoyo. As a result, Wuhan Grand has controlled the majority of the directors of Wuhan Hoyo. Wuhan Hoyo became a subsidiary of Wuhan Grand and its accounts have been consolidated into the Group starting from March 2010.

(4) Pursuant to the resolution passed in the general meeting held on 26 February 2010, the shareholders of Wuhan Grand had approved the issuance of new equity interests to its existing shareholders on a pro rata basis. The Group will subscribe in aggregate 75.95% of new equity interests in Wuhan Grand at a consideration of approximately RMB75,953,000. Upon completion, the Group will held 72.82% equity interests of the enlarged registered capital in Wuhan Grand. On 16 March 2010, the shareholders of Wuhan Grand varied the terms of the issuance of new equity interests to its existing shareholders such that the aggregate par value of all new equity interests offered for subscription be increased from RMB50,000,000 to RMB100,000,000, all other terms of the subscription remain unchanged. Upon subscription of its final entitlement to the new equity interests, the Group's equity interests in Wuhan Grand increased 2.69% from 70.98% to 73.67% of the enlarged registered capital in Wuhan Grand.

(5) On 2 March 2010, Wuhan Grand entered into an agreement with 33 shareholders of 湖北富馳化工醫藥股份有限公司 (Hubei Fuchi Chemical and Pharmaceutical Company Limited), currently known as 湖北遠大富馳醫藥化工股份有限公司 (Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited) ("Hubei Fuchi") ("Fuchi Vendors"). Pursuant to the agreement, Wuhan Grand agreed to purchase 75.47% equity interests in Hubei Fuchi from the Fuchi Vendors at a consideration of approximately RMB117 million. The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the Group starting from June 2010. In December 2010, Wuhan Grand completed the acquisition of a further 6.95% equity interests in Hubei Fuchi, raising the shareholding to 82.42%.

(6) On 2 March 2010, Wuhan Grand entered into another agreement with 珠海中珠股份有限公司 (Zhuhai Zhongzhu Joint Stock Company Limited) ("Zhuhai Zhongzhu") and 湖北園林青食品有限公司 (Hubei Yuanlinqing Food Company Limited) ("Hubei Yuanlinqing"). Pursuant to the agreement, Wuhan Grand agreed to purchase the entire equity interests in 湖北瑞珠製藥有限公司 (Hubei Ruizhu Pharmaceutical Company Limited), currently known as 湖北遠大天天明製藥有限公司 (Hubei Grand EBE Pharmaceutical Company Limited) ("Hubei Ruizhu") from Zhuhai Zhongzhu and Hubei Yuanlinqing at a total consideration of approximately RMB110 million. The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the Group starting from May 2010.

(7) On 30 April 2010, the Company entered into a framework agreement with Mr. Ye Bo, pursuant to which, the Company agreed to purchase 67% equity interests in 浙江仙居仙樂藥業有限公司 (Zhejiang Xianju Xianle Pharmaceutical Company Limited) ("Zhejiang Xianle") at a consideration of approximately RMB93,800,000. The acquisition of Zhejiang Xianle has been completed and its accounts have been consolidated into the Group starting from October 2010.

(8) On 30 April 2010, the Company entered into three framework agreements with Magnate Company Limited, Golden Joint Global Limited and Phnia Company Limited respectively (together the "Lihua Vendors"), pursuant to which, the Company agreed to purchase in aggregate 55% equity interests in 河南利華製藥有限公司 (Henan Lihua Pharmaceutical Company Limited) ("Henan Lihua") at a consideration of approximately RMB165,000,000. As of today, the Lihua Vendors have not executed the transfer agreements pursuant to the terms of the framework agreements. The acquisition of Henan Lihua has not been completed and the Company is taking legal action against Magnate Company Limited to protect its rights under the framework agreements.

(9) On 23 November 2010, the Company announced to raise approximately HK$278,516,000 by an open offer of 480,200,221 offer shares at a subscription price of HK$0.58 per offer share on the basis of one offer share for every three existing shares held by the qualifying shareholders. On 31 December 2010, 480,200,221 offer shares were issued and the net proceeds from the open offer of approximately HK$273,430,000 were used as to (i) approximately HK$176,638,000 for repayment of the promissory note and part of other amount due to Outwit and (ii) approximately HK$70,000,000 for financing the acquisition of Zhejiang Xianle by means of repaying part of the bank loan obtained by the Group for the acquisition and (iii) the balance for general working capital and future acquisition purposes.

(10) On 25 November 2010, Wuhan Grand entered into the resumption and relocation compensation agreement with 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in relation to Wuhan Grand's agreement to surrender 3 pieces of industrial use land of an aggregate area of approximately 197,973 square meters situated at No. 5 Gutian Road and No. 8 Jiefang Road, Qiaokou District, Wuhan, Hubei Province (the "Wuhan Property") which is owned by Wuhan Grand, together with buildings, structures and attachments (including immovable plant and equipment) located thereon and thereunder to the Land Reserve Centre and to relocate its production facilities situated thereat to other locations and the Land Reserve Centre's agreement to compensate Wuhan Grand for the disposal. The compensation amounts to RMB855,000,000. The Wuhan Property is currently used as the production facilities of Wuhan Grand for the production of pharmaceutical preparations and raw material pharmaceuticals.

(11) On 27 December 2010, Wuhan Grand entered into a share transfer agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) (the "Wuhan Donghu"), pursuant to which Wuhan Donghu agreed to sell and Wuhan Grand agreed to purchase a 6.4% equity interests in Wuhan Hoyo for an aggregate consideration of RMB5,420,000. The shareholding in Wuhan Hoyo has increased from 56% to 62.4%.

Consolidated results

For the year ended 31 December 2010, the Group recorded a turnover of HK$1,054,754,000 (2009: HK$545,435,000) which represents an increase of 93% as compared with that of the previous year. The increase was mainly attributable to the increase in Wuhan Grand's turnover and the inclusion of turnover generated from the newly acquired subsidiaries. Gross profit of the Group for the year under review was HK$374,807,000 (2009: HK$250,094,000).

The Group reported a consolidated profit attributable to equity holders of the Company of HK$97,973,000 as compared with HK$28,344,000 for the previous year. The increase was mainly attributable to the relocation commencement fee recorded during the year and the increase in profit contributions from its subsidiaries. Profits generated from the Group's ophthalmic medicines increased due to the outbreak of the red-eye disease in the third quarter of 2010 in China. Furthermore, the rise in demand for respiratory medicines also increased the sales and profits of acetyl cysteine and carboxymethyl-L-cysteine.

Key financial figures extracted from the consolidated statement of comprehensive income:

(in Hong Kong dollar thousands)	**2010**	2009
Turnover	**1,054,754**	545,435
Gross profit	**374,807**	250,094
Profit for the year	**154,277**	41,913
Profit attributable to owners of the Company	**97,973**	28,344
Basic earnings per share (HK cents)	**6.63**	2.49

Operating results

For the year ended 31 December 2010, the Group's operating results attributable to equity holders of the Company was HK$41,555,000 (2009: HK$28,935,000) which was calculated below after excluding the following non-operating incomes and expenses.

(in Hong Kong dollar thousands)	**2010**	2009
Profit attributable to owners of the Company	**97,973**	28,344
Less: Relocation commencement fee	**(84,679)**	—
Less: Gain on bargain purchase	**(15,936)**	—
Less: Fair value gain on issuance of the promissory note	—	(17,244)
Add: Effective interests on the convertible bond	**1,345**	1,951
Add: Effective interests on the promissory note	**30,669**	15,884
Add: Loan interests on acquisitions of subsidiaries	**9,498**	—
Add: Professional fees on acquisitions of subsidiaries	**2,685**	—
	41,555	28,935

Wuhan Grand

Wuhan Grand is mainly engaged in the development, production and sales of pharmaceutical preparations and raw material pharmaceuticals. For the year ended 31 December 2010, overall turnover increased by 28% when compared with that of the previous year. Turnover of pharmaceutical preparations and raw material pharmaceuticals recorded an increase of 30% and 26% respectively when compared with that of the previous year.

Overall gross margin for the year ended 31 December 2010 was 45% (2009: 46%). Gross margin for pharmaceutical preparations was 59% (2009: 57%) while those for raw material pharmaceuticals was 27% (2009: 31%).

Turnover and gross profit analysis of Wuhan Grand for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Preparations	**356**	273	223
Raw material pharmaceuticals	**260**	207	214
Turnover	**616**	480	437
Preparations	**210**	156	125
Raw material pharmaceuticals	**69**	65	45
Gross profit	**279**	221	170

For the year ended 31 December 2010, pharmaceutical preparations accounted for approximately 58% (2009: 57%) of the annual sales and approximately 75% (2009: 71%) of gross profit of Wuhan Grand. These products are mainly focus on cardiovascular, ophthalmic and antibiotic areas. Sales of Tirofiban, a key anti-platelet drug for the treatment of cardiovascular disease, has recorded a 10% growth in sales when compared with that of the previous year and it dominates the PRC hospital market. Tirofiban has been included in the Basic Medical Insurance National Drug Reimbursement List in December 2009. Sales of our ophthalmic medicines recorded an increase of approximately 30% when compared with that of the previous year, this is mainly attributable to the outbreak of red-eye disease in the third quarter of 2010 in China. Sales of our core products for the past three years were analysed as follows:

(in RMB millions)	**2010**	2009	2008
Tirofiban	**55**	50	30
Ophthalmic medicines	**51**	39	36
Enoxacin gluconate	**58**	36	32
Others	**192**	148	125
Turnover — preparations	**356**	273	223

Wuhan Grand is one of the largest manufacturers of Analgin and Metronidazole in the PRC. Two other products, namely Adrenaline bitartrate and Noradrenaline bitartrate, were certified by the Food and Drug Administration of USA and are exported to the USA market. For the year ended 31 December 2010, these raw material pharmaceuticals accounted for approximately 42% (2009: 43%) of the annual sales and approximately 25% (2009: 29%) of gross profit of Wuhan Grand. Sales of these core products for the past three years were analysed as follows:

(in RMB millions)	**2010**	2009	2008
Analgin	**166**	141	142
Metronidazole	**35**	31	35
Adrenaline and Noradrenaline bitartrate	**20**	18	17
Others	**39**	17	20
Turnover — raw material pharmaceuticals	**260**	207	214

Wuhan Hoyo

Wuhan Hoyo is mainly engaged in the manufacture and sales of amino acid. Wuhan Grand acquired an additional 6.4% equity interest in Wuhan Hoyo in December 2010 and it is now owned as to 62.4% by Wuhan Grand.

For the year ended 31 December 2010, turnover increased by approximately 34% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 20% (2009: 19%). The increase was mainly attributable to the increase in sales of acetyl cysteine and carboxymethyl-l-cysteine which are of a higher profit margin.

Turnover and gross profit of Wuhan Hoyo for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
L-cysteine HCI monohydrate	**44**	36	30
L-cysteine HCI anhydrous	**18**	19	16
Acetyl cysteine	**56**	29	17
Carboxymethyl-L-cysteine	**29**	14	12
Others	**28**	33	33
Turnover	**175**	131	108
Gross profit	**34**	25	15

Hubei Fuchi

Hubei Fuchi is principally engaged in the production of healthcare, chemical medicines and agrochemicals. Its main products include taurine, calcium superphosphate and dimethyl sulfate. Hubei Fuchi is ranked third in China for the production of these main products.

The acquisition of Hubei Fuchi has been completed and its accounts have been consolidated into the accounts of the Group starting from June 2010. For the period from 1 June 2010 to 31 December 2010, turnover and net profit after tax recorded by Hubei Fuchi amounted to RMB147,557,000 and RMB7,010,000 respectively. The Group recorded a discount of approximately HK$16,324,000 on the acquisition of Hubei Fuchi.

For the year ended 31 December 2010, turnover increased by 12% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 18% (2009: 20%).

Turnover and gross profit of Hubei Fuchi for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Calcium superphosphate	**84**	98	100
Dimethyl sulfate	**44**	24	46
Taurine	**40**	50	91
Others	**44**	17	56
Turnover	**212**	189	293
Gross profit	**39**	37	72

Hubei Ruizhu

Hubei Ruizhu is principally engaged in the production and sales of ophthalmic medicines. Hubei Ruizhu has the state-of-the-art production facilities and is one of the few manufacturers in China which has the technology to produce high-end ophthalmic medicines. Ophthalmic medicines of Hubei Ruizhu cover most eye diseases including cataract, visual fatigue and trachoma. Following the acquisition of Hubei Ruizhu, the Group became one of the largest manufacturers of ophthalmic medicines in China.

The acquisition of Hubei Ruizhu has been completed and its accounts have been consolidated into the accounts of the Group starting from May 2010. For the period from 1 May 2010 to 31 December 2010, turnover and net profit after tax recorded by Hubei Ruizhu amounted to RMB16,667,000 and RMB7,060,000 respectively. The Group recorded a discount of approximately HK$5,307,000 on the acquisition of Hubei Ruizhu.

For the year ended 31 December 2010, turnover increased by 33% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 52% (2009: 31%). The increase was mainly attributable to the better utilization of the Group's sales network after Hubei Ruizhu was acquired by Wuhan Grand.

Turnover and gross profit of Hubei Ruizhu for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Ophthalmic drops	**12**	10	5
Ophthalmic gels	**8**	5	2
Turnover	**20**	15	7
Gross profit/(loss)	**10**	5	(3)

Zhejiang Xianle

Zhejiang Xianle is principally engaged in the manufacture and sales of steroid hormones active pharmaceutical ingredients and related intermediates. Zhejiang Xianle mainly produces two types of steroid hormones. The first type is glucocorticoid which includes betamethasone, dexamethasone, triamcinolone acetonide. The production and sale of betamethasone dominate the PRC market. Glucocorticoid is widely used in different types of diseases including inflammation, asthma, immune suppression and cardiovascular illness. The second type is cyproterone acetate, a sex hormone product, which is an antiandrogen and is mainly used in diseases such as prostate cancer, benign prostatic hyperplasia and hypersexuality.

Currently, three raw material pharmaceutical products of Zhejiang Xianle have received GMP certification from the PRC authorities and two other products have received Europe COS certification from EDQM. Zhejiang Xianle is also applying Europe COS and USA FDA certifications for other main products.

The acquisition of Zhejiang Xianle has been completed and its accounts have been consolidated into the accounts of the Group starting from October 2010. For the period from 1 October 2010 to 31 December 2010, turnover and net profit after tax recorded by Zhejiang Xianle amounted to RMB35,210,000 and RMB3,243,000 respectively. The Group recorded a goodwill of approximately HK$54,944,000 on the acquisition of Zhejiang Xianle.

For the year ended 31 December 2010, turnover increased by 9% when compared with that of the previous year. Gross margin for the year ended 31 December 2010 was 25% (2009: 29%). The decrease in gross margin was mainly attributable to the increase in cost of production raw materials which was not passed on to customers as Zhejiang Xianle intended to increase its market share and enhance its competitiveness.

Turnover and gross profit of Zhejiang Xianle for the past three years were as follows:

(in RMB millions)	**2010**	2009	2008
Betamethasone	**63**	58	40
Beta-hydroxyprogesterone	**32**	28	22
16-beta-methyl expoxide	**29**	28	12
Cyproterone acetate	**24**	15	12
Dexamehasone	**12**	21	26
Others	**9**	6	10
Turnover	**169**	156	122
Gross profit	**42**	45	34

PROSPECTS

The Group will continue to focus on the three main business lines, namely (i) ophthalmic medicines, (ii) cardiovascular drugs and other preparations and (iii) health products & raw materials pharmaceuticals. The Group plans to upgrade its production facilities so as to increase its production capacity and market share, continue to invest in research and development in order to maintain a full and substainable new product pipeline and look for suitable acquisition target.

The relocation of our production facilities in Wuhan is progressing as planned. The Group will take this opportunity to increase its production capacity and to upgrade its production facilities in order to comply with international standards. The Group intends to increase the number of products which receives international certifications such as Europe COS and USA FDA in order to enter the international market and to enhance its profit margin.

The Group intends to develop the existing production site of Hubei Fuchi and its vicinity area into China Grand Pharmaceutical Industrial Park. The park will be developed into three 3 major areas, namely, (1) the pharmaceutical products production area which will be further divided into the general pharmaceutical production area and the internationally-certified fine pharmaceutical production area, (2) the health food additive products production area and (3) the active pharmaceutical ingredient products production.

The general pharmaceutical production area will mainly produce antipyretic and analgesic pharmaceuticals, antibiotics, semi-synthetic antibiotics, cardiovascular pharmaceuticals, such as analgin, enoxacin and ethambutol.

The internationally-certified fine pharmaceutical production area will be used mainly for the development of high-end fine pharmaceutical products, such as adrenaline/noradrenaline bitartrate and other active pharmaceutical ingredients ("API") including anti-cholestrol APIs and also hypertension APIs.

The health food additive products production area is primarily used to develop taurine products, which are the major ingredients used in domestic and international markets for energy drinks. The Group plans to gradually expand its production capacity of taurine products so as to strengthen its position as one of the largest manufacturers in the world, and at the same time, accelerate its development of amino acid products.

Hubei Ruizhu will produce all ophthalmic medicines while a new production site in Wuhan Jinyin Lake will produce other pharmaceutical preparations.

The operations and production currently carried on at the existing production facilities located at the Wuhan Property will continue until the new production facilities are ready for production. The Group will ensure the disruption to the overall operations and production is kept minimal.

Zhejiang Xianle also plans to expand production and increase production capacity in order to meet the demand for its products. Zhejiang Xianle will acquire a piece of 133,333 square meters land located at Jiangsu Binhai Economic Development Zone Coastal Industrial Park to increase the production capacity of steroid hormones APIs.

The Group will continue to build a full and sustainable new product pipeline through internal research and external project cooperation with pharmaceutical research institutes. Currently, there are several new products under development with these well-known research institutes. The development of Candesartan Cilexetil and Hydrochlorothiazide capsules, Olprinone injection and Telmisartan/ Amlodipine tablet will effectively expand our new product pipelines in cardiovascular therapeutic area; the development of Penciclovir injection will further reinforce our market position in anti-infections therapeutic area. The Group is also developing two drugs for lung cancer. These new products are scheduled to be introduced to the market gradually in the coming years and will increase the Group's revenue and margin.

The Group will fully capitalise on the opportunities arising from the PRC pharmaceutical and public health systems reform by expanding its product range and market share, enhancing its research and development capability and improving its sales network.

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

Financial resources and liquidity

As at 31 December 2010, the Group had current assets of HK$828,941,000 (31 December 2009: HK$207,300,000) and current liabilities of HK$636,507,000 (31 December 2009: HK$264,450,000). The current ratio was 1.3 at 31 December 2010 as compared with 0.78 at 31 December 2009.

The Group's cash and bank balances as at 31 December 2010 amounted to HK$306,999,000 (31 December 2009: HK$60,227,000), of which 7% were denominated in Hong Kong and United States Dollars and 93% in Renminbi.

As at 31 December 2010, the Group had outstanding bank loans of HK$346,717,000 (31 December 2009: HK$92,195,000). Included in the bank loans, there was a bank loan of approximately HK$3,188,000 which was denominated in US$ and a bank loan of approximately HK$30,000,000 which was denominated in HK$. All other bank loans are denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.56% to 5.56% (for the year ended 31 December 2009: 5.31% to 5.58%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK$98,138,000 (31 December 2009: HK$205,667,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 61% at 31 December 2010 as compared with 246% at 31 December 2009.

On 18 February 2010, Outwit completed the placing of 200,000,000 existing shares to investors and the subscription of 200,000,000 new shares of the Company. The net proceeds from the subscription amounted to approximately HK$86,360,000. On 18 February 2010, Outwit opted to convert fully the HK$50,000,000 convertible bond into shares of the Company.

In December 2010, the Company completed the open offer on the basis of one offer share for every three existing share, raising approximately HK$273,430,000, further improving the financial position of the Company. The proceeds from the open offer were applied as to (i) approximately HK$176,638,000 for repayment of the promissory note and part of other amount due to Outwit; (ii) approximately HK$70,000,000 for financing the acquisition of Zhejiang Xianle by means of repaying part of the bank loan obtained by the Group for the acquisition and (iii) the balance for general working capital and future acquisition purposes.

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

Employees and remuneration policy

As at 31 December 2010, the Group employed about 3,600 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Contingent liabilities

The Group's had no significant contingent liabilities at 31 December 2010.

Appreciation

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

Liu Chengwei
Chairman

Hong Kong, 21 March 2011

EXECUTIVE DIRECTORS

Mr Liu Chengwei, aged 37, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Wuhan Grand, the principal subsidiary of the Company. Mr Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr Liu worked for General Electric Company's PRC subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from Peking University and a master's degree in Business Administration from China Europe International Business School.

Mr Hu Bo, aged 26, was appointed executive director of the Company in July 2008. Mr Hu has over 5 years of experience in network project management and property management. Mr Hu is currently the deputy general manager of a real estate company in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr Shao Yan, aged 48, was appointed executive director of the Company in October 2008. Dr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr Shao is responsible for overseeing the entire operations and general management of the Company. Dr Shao has over 20 years of experience in corporate management and venture capital investment. Dr Shao holds a master's degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr Zhang Ji, aged 49, was appointed non-executive director of the Company in November 2008 and was redesignated as executive director of the Company in February 2010. Dr Zhang has over 16 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr Zhang is currently the R&D General Manager of the Pharmaceutical Industry Division of China Grand. Dr Zhang worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years before joining China Grand in 2008. Dr Zhang holds both a bachelor degree in Microbiology and a master's degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie, aged 48, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 54, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 20 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Mr Xin Dongsheng, aged 48, was appointed independent non-executive director of the Company in October 2008. Mr Xin is a director of Beijing Qun Ying Management Consultancy Company Limited, a company established in Beijing. Mr Xin is also a director of Tibet Cheezheng Tibetan Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. He has over 20 years of experience in marketing, product development, business development, strategic research and consultancy in pharmaceutical business in the PRC. He holds an EMBA degree from China Europe International Business School, a master's degree in Pharmacy and a bachelor degree in Medicine from Xian Medical University.

SENIOR MANAGEMENT

Mr Lau Wing Yuen, aged 46, is the Chief Financial Officer of the Company. Mr Lau joined the Company in April 2005 and is responsible for finance, tax, accounting and company secretarial matters. Mr Lau holds a bachelor degree with major in Economics and Management Studies from University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he worked for an international accounting firm and several listed companies in Hong Kong. He has over 20 years of experience in auditing, secretarial, accounting and corporate finance.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2010, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE REPORT

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2010.

BOARD OF DIRECTORS

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

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

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

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

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

AUDIT COMMITTEE

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

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

The audit committee held two meetings during the year ended 31 December 2010 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

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

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

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2010 are set out in Note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has not established a nomination committee. The Board is responsible for selecting suitable candidates to act as directors based on their qualification, experience and potential contribution to the Company. No meeting was held during the year to select or recommend candidates for directorship during the year.

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES MEETINGS

	Meetings Attended/Held		
Directors	Board	Audit Committee	Remuneration Committee
Mr Liu Chengwei	10/10	N/A	2/2
Mr Hu Bo	10/10	N/A	N/A
Dr Shao Yan	10/10	N/A	N/A
Dr Zhang Ji	10/10	N/A	N/A
Ms So Tosi Wan, Winnie	10/10	2/2	2/2
Mr Lo Kai, Lawrence	10/10	2/2	2/2
Mr Xin Dongsheng	10/10	2/2	N/A

AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK$1,500,000. During the year ended 31 December 2010, SHINEWING (HK) CPA Limited was also engaged to carry out assignments on four major acquisition transactions, the open offer and the relocation of the Wuhan properties, total fees payable in respect of these non-audit services amounted to HK$1,870,000.

FINANCIAL REPORTING

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

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The directors are pleased to present their report together with the audited consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in Notes 44 and 18 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out on pages 26 to 115.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil). No interim dividend was declared during the year (2009: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Note 44 to the consolidated financial statements respectively.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2010 are set out in Notes 44 and 18 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

BANK LOANS

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

DIRECTORS

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

Executive directors
Mr Liu Chengwei
Mr Hu Bo
Dr Shao Yan
Dr Zhang Ji (formerly a non-executive director, was re-designated as an executive director on 12 February 2010)

Independent non-executive directors
Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Mr Xin Dongsheng

Pursuant to bye-law 87(1), Ms So Tosi Wan, Winnie and Mr Lo Kai, Lawrence retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Pursuant to bye-law 87(2), Mr. Xin Dongsheng retires and not to offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTEREST

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

CONNECTED TRANSACTIONS

The subscription of 200,000,000 shares pursuant to the terms of the subscription agreement of 15 January 2010 entered into between Outwit Investments Limited and the Company constitutes a connected transaction under Chapter 14A of the Listing Rules. Details of the subscription are set out in the Company's circular dated 28 January 2010. The subscription was approved by independent shareholders at a special general meeting held on 12 February 2010.

In December 2010, Wuhan Grand entered into a share transfer agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) ("Wuhan Donghu"), pursuant to which Wuhan Donghu agreed to sell and Wuhan Grand agreed to purchase a 6.4% equity interests in Wuhan Hoyo for a consideration of RMB5,420,000. The transaction was a connected transaction exempted from the independent shareholders' approval under Chapter 14A of the Listing Rules.

SHARE OPTION SCHEME

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

No share options were granted or exercised under the share option scheme during the year ended 31 December 2010 and there were no outstanding share options as at 31 December 2010.

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

As at 31 December 2010, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,218,195,094	63.42%
Mr Hu Kaijun *(Note)*	1,218,195,094	63.42%

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the five largest customers of the Group accounted for less than 30% of the Group's total turnover while the five largest suppliers accounted for less than 30% the Group's total purchases.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2010.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 16 to 18.

AUDITORS

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

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 21 March 2011

信永中和 ShineWing

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

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

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 115, which comprise the consolidated statement of financial position as at 31 December 2010, 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 of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affair of the Group as at 31 December 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

Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
21 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Turnover	7	**1,054,754**	545,435
Cost of sales		**(679,947)**	(295,341)
Gross profit		**374,807**	250,094
Other income	8	**140,775**	7,619
Distribution costs		**(207,939)**	(114,458)
Administrative expenses		**(121,967)**	(89,722)
Other operating expenses	9	**(330)**	(327)
Gain on bargain purchase	38	**21,631**	—
Fair value gain on issuance of promissory note		**—**	17,244
Share of results of associates	18	**3,149**	5,183
Finance costs	10	**(51,960)**	(26,847)
Profit before tax		**158,166**	48,786
Income tax expense	11	**(3,889)**	(6,873)
Profit for the year	12	**154,277**	41,913
Other comprehensive income			
Exchange difference on translation of foreign operations		**20,669**	—
Change in fair value of available-for-sale financial assets, after tax		**3,746**	4,866
Other comprehensive income for the year		**24,415**	4,866
Total comprehensive income for the year		**178,692**	46,779
Profit for the year attributable to:			
— Owners of the Company		**97,973**	28,344
— Non-controlling interests		**56,304**	13,569
		154,277	41,913
Total comprehensive income attributable to:			
— Owners of the Company		**118,435**	31,798
— Non-controlling interests		**60,257**	14,981
		178,692	46,779
Earnings per share	14		
Basic (HK cents)		**6.63**	2.49
Diluted (HK cents)		**6.62**	2.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	16	**450,918**	137,977	132,237
Prepaid lease payments	17	**246,114**	196,499	201,467
Interests in associates	18	**5,076**	44,882	36,745
Available-for-sale financial assets	19	**35,055**	29,422	23,345
Deposits for acquisition of non-current assets	20	**42,444**	—	—
Goodwill	21	**54,944**	—	—
Intangible assets	22	**958**	1,252	1,579
Deferred tax assets	23	**2,221**	—	—
Prepayments	24	**20,415**	—	—
		858,145	410,032	395,373
Current assets				
Inventories	25	**216,168**	54,968	64,295
Trade and other receivables	26	**246,405**	85,696	64,821
Prepaid lease payments — current portion	17	**6,677**	5,006	5,044
Pledged bank deposits	27	**52,692**	1,403	4,574
Bank balances and cash	27	**306,999**	60,227	37,927
		828,941	207,300	176,661
Current liabilities				
Trade and other payables	28	**294,544**	137,904	142,240
Financial guarantee liabilities	29	**427**	—	—
Bank borrowings	30	**306,717**	69,468	77,273
Convertible bond	31	**—**	48,997	—
Tax payable		**34,819**	8,081	2,118
		636,507	264,450	221,631
Net current assets (liabilities)		**192,434**	(57,150)	(44,970)
Total assets less current liabilities		**1,050,579**	352,882	350,403

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Non-current liabilities				
Bank borrowings	30	**40,000**	22,727	18,181
Deferred tax liabilities	32	**67,621**	45,399	45,219
Amount due to holding company	33	**12,580**	22,229	19,951
Convertible bond	31	**—**	—	48,296
Promissory note/other payable	34	**—**	126,831	128,191
Deferred income	35	**83,529**	—	—
		203,730	217,186	259,838
Net assets		**846,849**	135,696	90,565
Capital and reserves				
Share capital	36	**19,208**	10,739	10,739
Reserves		**548,578**	26,808	(4,990)
Equity attributable to owners of the Company		**567,786**	37,547	5,749
Non-controlling interests		**279,063**	98,149	84,816
Total equity		**846,849**	135,696	90,565

The consolidated financial statements on pages 26 to 115 were approved and authorised for issue by the board of directors of the Company on 21 March 2011 and are signed on its behalf by:

Liu Chengwei	**Shao Yan**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Note	Share capital HK$'000	Share premium HK$'000	Convertible bond reserve HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (note a)	Safety fund reserve HK$'000 (note b)	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note c)	(Accumulated losses)/ retained profits HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009, as previously stated		10,739	94,457	3,256	–	1,732	–	(146)	–	–	(105,430)	4,608	84,350	88,958
Prior year adjustments	1	–	–	–	–	–	–	–	(303)	–	1,444	1,141	466	1,607
At 1 January 2009, as restated		10,739	94,457	3,256	–	1,732	–	(146)	(303)	–	(103,986)	5,749	84,816	90,565
Profit for the year		–	–	–	–	–	–	–	–	–	28,344	28,344	13,569	41,913
Other comprehensive income for the year:														
Change in fair value of available-for-sale financial assets, after tax		–	–	–	–	–	–	–	3,454	–	–	3,454	1,412	4,866
Total comprehensive income for the year		–	–	–	–	–	–	–	3,454	–	28,344	31,798	14,981	46,779
Dividends paid for the year		–	–	–	–	–	–	–	–	–	–	–	(1,648)	(1,648)
Transfer		–	–	–	–	4,367	–	–	–	–	(4,367)	–	–	–
At 31 December 2009		10,739	94,457	3,256	–	6,099	–	(146)	3,151	–	(80,009)	37,547	98,149	135,696

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Note	Share capital HK$'000	Share premium HK$'000	Convertible bond reserve HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (note a)	Safety fund reserve HK$'000 (note b)	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note c)	(Accumulated losses)/ retained profits HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010, as previously stated		10,739	94,457	3,256	–	6,099	–	(146)	–	–	(81,453)	32,952	96,271	129,223
Prior year adjustments	1	–	–	–	–	–	–	–	3,151	–	1,444	4,595	1,878	6,473
At 1 January 2010, as restated		10,739	94,457	3,256	–	6,099	–	(146)	3,151	–	(80,009)	37,547	98,149	135,696
Profit for the year		–	–	–	–	–	–	–	–	–	97,973	97,973	56,304	154,277
Other comprehensive income for the year:														
Exchange difference on translation of foreign operations		–	–	–	–	–	–	17,702	–	–	–	17,702	2,967	20,669
Change in fair value of available-for-sale financial assets, after tax		–	–	–	–	–	–	–	2,760	–	–	2,760	986	3,746
Total comprehensive income for the year		–	–	–	–	–	–	17,702	2,760	–	97,973	118,435	60,257	178,692
Placing of shares		2,000	84,360	–	–	–	–	–	–	–	–	86,360	–	86,360
Issue of shares on conversion of convertible bonds		1,667	51,589	(3,256)	–	–	–	–	–	–	–	50,000	–	50,000
Share premium reduction		–	(230,406)	–	121,273	–	–	–	–	–	109,133	–	–	–
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	27,347	27,347
Arising from deemed acquisition of non-controlling interests		–	–	–	–	–	–	–	–	7,497	–	7,497	(7,497)	–
Acquisition of additional interest in subsidiaries		–	–	–	–	–	–	–	–	(5,483)	–	(5,483)	(21,721)	(27,204)
Non-controlling interests arising on the acquisition of subsidiaries	38	–	–	–	–	–	–	–	–	–	–	–	122,528	122,528
Issue of shares through open offer		4,802	268,628	–	–	–	–	–	–	–	–	273,430	–	273,430
Transfer		–	–	–	–	2,401	1,482	–	–	–	(3,883)	–	–	–
At 31 December 2010		19,208	268,628	–	121,273	8,500	1,482	17,556	5,911	2,014	123,214	567,786	279,063	846,849

Notes:

a. Each of the Company's PRC subsidiary's Articles of Association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to the document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund reserve is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Operating activities		
Profit before tax	**158,166**	48,786
Adjustments for:		
Amortisation of intangible assets	**330**	327
Amortisation of prepaid lease payments	**5,927**	5,006
Depreciation of property, plant and equipment	**29,429**	11,282
Dividend income from equity investments	**—**	(32)
Fair value gain on issuance of promissory note	**—**	(17,244)
Finance costs	**51,960**	26,847
Loss (gain) on disposal of property, plant and equipment	**1,526**	(40)
Gain on bargain purchase	**(21,631)**	—
Gain recognised on re-measuring interest in an associate to fair value on business combination date	**(2,648)**	—
Loss on disposal of available-for-sale financial assets	**—**	187
Impairment loss on inventories	**961**	292
Impairment loss on trade and other receivables	**2,682**	838
Bank interest income	**(2,866)**	(421)
Reversal of impairment loss on trade and other receivables	**(200)**	(631)
Share of results of associates	**(3,149)**	(5,183)
Operating cash flows before movements in working capital	**220,487**	70,014
(Increase) decrease in inventories	**(35,169)**	9,035
Decrease (increase) in trade and other receivables	**40,852**	(3,887)
Decrease in trade and other payables	**(31,371)**	(5,586)
Net cash generated from operations	**194,799**	69,576
Income tax paid	**(10,700)**	(2,352)
Net cash generated from operating activities	**184,099**	67,224

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(50,605)**	(17,707)
Acquisition of additional interests in associates		**—**	(2,954)
Acquisition of non-controlling interests		**(27,204)**	—
(Increase) decrease in pledged bank deposits	27	**(42,103)**	3,171
Increase in deposits for acquisition of non-current assets		**(42,444)**	—
Increase in non-current prepayments		**(20,415)**	—
Proceeds from disposal of property, plant and equipment		**2,406**	725
Bank interest income received		**2,866**	421
Net proceeds from disposal of available-for-sale financial assets		**—**	224
Dividend income received from available-for-sale financial assets		**—**	32
Net cash outflow from acquisition of subsidiaries	38	**(286,620)**	—
Net cash used in investing activities		**(464,119)**	(16,088)
Financing activities			
Repayments of bank loans		**(460,726)**	(88,636)
Interest paid		**(19,946)**	(9,012)
Dividends paid to non-controlling interests		**—**	(1,648)
Bank loans raised, net		**690,977**	68,182
(Repayment to)/advance from holding company		**(9,649)**	2,278
Receipts of deferred income		**83,529**	—
Proceeds from issue of new ordinary shares		**359,790**	—
Capital contribution from non-controlling interests		**27,347**	—
Repayment of interest of a convertible bond		**(342)**	—
Repayment of principal of a promissory note		**(150,000)**	—
Repayment of interest of a promissory note		**(7,500)**	—
Net cash generated from (used in) financing activities		**513,480**	(28,836)
Net increase in cash and cash equivalents		**233,460**	22,300
Cash and cash equivalents at beginning of year		**60,227**	37,927
Effect of foreign exchange rate changes		**13,312**	—
Cash and cash equivalents at end of year, representing			
Bank balances and cash		**306,999**	60,227

1. GENERAL INFORMATION

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

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

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

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

Prior year adjustments

Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand"), for which 70.98% equity interest was acquired in the year of 2008 by the Group, owned an available-for-sale financial asset of equity securities (the "AFS Securities") at a cost of RMB700,000 at a time since 1997. The AFS Securities were unlisted securities before the year of 2004, when the investee company was successfully listed in the Shanghai Stock Exchange. The AFS Securities were subject to restriction for free trading since its listing up to May 2007.

1. GENERAL INFORMATION *(Continued)*

Prior year adjustments *(Continued)*

During the year, management conducted a detailed review on the impairment of the AFS Securities. As a result of the review it was noticed that, the AFS Securities were inadvertently measured at cost less impairment loss in the books of Wuhan Grand for the period from the year of 2004 to the year ended 31 December 2010. Consequently, the Group re-measured the AFS Securities at their fair value since the date of the listing of shares in the investee company, with any changes in fair value, other than impairment losses, being charged or credited to the available-for-sale financial assets revaluation reserve in the period when the change occurs. Prior year adjustments were raised accordingly to reflect the re-measurement of the AFS Securities in accordance with the Company's accounting policies with details as follows:

	Notes	As previously reported Dr/(Cr) HK$'000	Prior year adjustments Dr/(Cr) HK$'000	Year end balances, as restated Dr/(Cr) HK$'000
1 January 2009				
Available-for-sale financial assets	*a*	21,202	2,143	23,345
Deferred tax liabilities	*a*	(44,683)	(536)	(45,219)
Available-for-sale financial assets revaluation reserve	*a*	—	303	303
Non-controlling interests	*a*	(84,350)	(466)	(84,816)
Accumulated losses	*b*	105,430	(1,444)	103,986
31 December 2009				
Available-for-sale financial assets	*a*	20,791	8,631	29,422
Deferred tax liabilities	*a*	(43,241)	(2,158)	(45,399)
Available-for-sale financial assets revaluation reserve	*a*	—	(3,151)	(3,151)
Non-controlling interests	*a*	(96,271)	(1,878)	(98,149)
Accumulated losses	*b*	81,453	(1,444)	80,009

1. GENERAL INFORMATION *(Continued)*

Prior year adjustments *(Continued)*

The prior year adjustments represent:

(a) The fair value adjustment on the AFS Securities, deferred tax liabilities, the associated fair value gain (loss) transferred to the available-for-sale financial assets revaluation reserve and the non-controlling interests' share of the change in fair value, after tax, of the AFS Securities.

(b) The decrease in the accumulated loss of the Group as at 1 January 2009 and 31 December 2009 as a consequence of the increase in the gain on bargain purchase on the acquisition of Wuhan Grand in the year of 2008, resulting from the fair value adjustment on the AFS Securities acquired by the Group via its purchase of 70.98% equity interest in Wuhan Grand in the year of 2008.

The prior year adjustments have no impact on the consolidated profit for the year attributable to owners of the Company for the year ended 31 December 2009, and hence there is no impact on the basic and diluted earnings per share for the year of 2009.

Comparative information has been restated to reflect the effect of this change to the corresponding account balances and the consolidated statement of financial position as at 31 December 2009 and 1 January 2009.

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

In current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Interpretation ("INT") 17	Distributions of Non-cash Assets to Owners
HK INT 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

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.

HKFRS 3 (Revised) Business Combinations

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

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo"), Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") (formerly known as Hubei Fuchi Pharmaceutical Company Limited), Hubei Grand EBE Pharmaceutical Company Limited ("Hubei Ruizhu") (formerly known as Hubei Ruizhu Pharmaceutical Company Limited) and Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), the Group has elected to measure the non-controlling interests at the non-controlling interests' share of the identifiable net assets at the date of acquisition.

HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

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

HKFRS 3 (Revised) Business Combinations *(Continued)*

In the current period, these changes in policies have affected the accounting for the acquisition of Hubei Fuchi and Hubei Ruizhu as follows:

	31 December 2010 *HK$'000*
Impact on consolidated statement of comprehensive income	
— Acquisition-related costs incurred but not recognised as part of the cost of acquisition leading to an increase in gain on bargain purchase for the year as a result of the adoption of HKFRS 3 (2008)	(1,200)
— Acquisition-related costs expensed when incurred charged to consolidated statement of comprehensive income leading to a decrease in profit for the year as a result of the adoption of HKFRS 3 (2008)	1,200
	—

In the current period, these changes in policies have affected the accounting for the acquisition of Zhejiang Xianle as follows:

	31 December 2010 *HK$'000*
Consolidated statement of comprehensive income	
— Acquisition-related costs expensed when incurred charged to consolidated statement of comprehensive income leading to a decrease in profit for the year as a result of the adoption of HKFRS 3 (as revised in 2008)	750
Consolidated statement of financial position	
— Acquisition-related costs expensed when incurred leading to decrease in goodwill recognised as a result of the adoption of HKFRS 3 (as revised in 2008)	750

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

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, 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. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the increases in Group's equity interest in existing subsidiaries of Wuhan Grand, Hubei Fuchi, Huanggang City Fuchi Pharmaceutical Company Limited and Hubei Fubo Chemical Company Limited during the year, the impact of the change in policy was that the total difference of HK$2,014,000 between the consideration paid and carrying amount of the equity interests acquired was recognised in other reserve within equity. Had the previous accounting policy been applied, gain on bargain purchase of approximately HK$9,051,000 would have been recognised in profit or loss and additional goodwill of approximately HK$7,037,000 would have been recognised in consolidated statement of financial position. Therefore the change in accounting policy has resulted in a decrease in the profit for the period of HK$9,051,000 and no additional goodwill of HK$7,037,000 recognised.

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

There is no effect of the above changes in accounting policies on the financial position of the Group as at 1 January 2009 and 31 December 2009 and on the calculation on the Group's basic and diluted earnings per share for the current and prior period as HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) are applied prospectively for the Group for the above changes.

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

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosure — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKFRS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK (IFRIC) — INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) — INT 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

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

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

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements *(Continued)*

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 Related Party Disclosure (as revised in 2009) modifies the definition of a related party and simplifies disclosure for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group, because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangement that would fall within the scope of the amendment. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies 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 statement of comprehensive income from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expenses of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination

Business combinations that took place on or after 1 January 2010

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

Business combinations that took place on or after 1 January 2010 *(Continued)*

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

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

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

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

Business combinations that took place prior to 1 January 2010 (Continued)

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

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

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

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

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

Investments in associates

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

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

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

Revenue recognition

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

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

Dividend income from investment is recognised when the shareholders' right to receive payment have been established.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than allocated land and 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 purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. 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.

Employee benefits

Employee entitlements

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

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

Retirement benefits scheme contribution

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditure

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the reserve is reclassified to profit and loss (see accounting policy on impairment loss on financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment on financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of the 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 impacted.

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

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

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

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

For financial assets carried at amortised cost, impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment on financial assets (Continued)

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

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities are generally classified into other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Convertible bond contains liability and equity components

Convertible bond issued by the Group that contains both the liability and conversion option components is classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bond contains liability and equity components (Continued)

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial guarantee contracts

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. Subsequent to initial recognition, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Share-based payments

Share options granted to employees

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

At 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 option reserve.

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

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

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.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and 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.

Key sources of estimation uncertainty

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

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 31 December 2010, the carrying amount of goodwill is HK$54,944,000. Details of the recoverable amount calculation are disclosed in note 21.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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

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

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

Impairment of trade and other receivables

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

Impairment of inventories

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of assets

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

— property, plant and equipment;

— prepaid lease payments;

— available-for-sale financial assets;

— intangible assets; and

— investments in subsidiaries and associates

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

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

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

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 at 31 December 2010 consists of debt, which includes bank loans and amount due to holding company disclosed in respective notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000* (Restated)	1 January 2009 *HK$'000* (Restated)
Financial assets			
Available-for-sale financial assets	**35,055**	29,422	23,345
Loans and receivables (including cash and cash equivalents)			
Trade and other receivables	**205,229**	73,793	47,738
Pledged bank deposits	**52,692**	1,403	4,574
Bank balances and cash	**306,999**	60,227	37,927
	564,920	135,423	90,239
Financial liabilities at amortised cost			
Convertible bond	**—**	48,997	48,296
Financial guarantee liabilities	**427**	—	—
Other financial liabilities			
Trade and other payables	**269,814**	109,384	110,674
Bank borrowings	**346,717**	92,195	95,454
Promissory note/other payable	**—**	126,831	128,191
Amount due to holding company	**12,580**	22,229	19,951
	629,111	350,639	354,270

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

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

i. Fair value of financial assets and financial liabilities

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

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

ii. Currency risk

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. *Currency risk* *(Continued)*

Sensitivity analysis

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

	2010	2009
	HK$'000	*HK$'000*
Increase (decrease) in profit for the year		
— if USD weakens against of RMB	**(2,773)**	(327)
— if USD strengthens against of RMB	**2,773**	327
Increase (decrease) in profit for the year		
— if HK$ weakens against of RMB	**1,401**	10,042
— if HK$ strengthens against of RMB	**(1,401)**	(10,042)

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. *Currency risk* *(Continued)*

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

	2010	2009
	HK$'000	*HK$'000*
USD		
Trade and other receivables	**61,341**	6,246
Bank balances and cash	**5,152**	286
Trade and other payables	**(7,841)**	—
Bank borrowings	**(3,188)**	—
HK$		
Trade and other receivables	**2,332**	85
Bank balances and cash	**14,651**	51
Trade and other payables	**(2,845)**	(2,911)
Convertible bond	**—**	(48,997)
Bank borrowings	**(30,000)**	—
Amount due to holding company	**(12,580)**	(22,229)
Promissory note	**—**	(126,831)

iii. *Interest rate risk*

The Group are primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates (see note 27) and variable-rate borrowings (see note 30). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. Interest rate risk (Continued)

Interest rate sensitivity

If the interest rates had been increased/decreased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would decrease/increase by approximately HK$3,440,000 (2009: increase/decrease by approximately HK$1,892,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

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

iv. Liquidity risk

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

At 31 December 2010, maximum banking facilities in an aggregate amount of approximately HK$470 million (2009: approximately HK$187 million) were available from the Group's principal bankers, of which approximately HK$347 million (2009: HK$75 million) has been utilised.

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 based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. *Liquidity risk* *(Continued)*

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.

As at 31 December 2010

	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	269,814	269,814	—	269,814
Financial guarantee liabilities *(note)*	34,412	34,412	—	427
Bank borrowings	359,128	318,878	40,250	346,717
Amount due to holding company	13,209	—	13,209	12,580
	676,563	623,104	53,459	629,538

As at 31 December 2009

	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than one year but less than two years *HK$'000*	Carrying amount *HK$'000*
Trade and other payables	109,384	109,384	—	109,384
Bank borrowings	95,236	70,634	24,602	92,195
Amount due to holding company	24,452	—	24,452	22,229
Convertible bond	51,342	51,342	—	48,997
Promissory note	158,630	—	158,630	126,831
	439,044	231,360	207,684	399,636

6. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. *Liquidity risk* *(Continued)*

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if such amount is claimed by the counterparty to the guarantee against the Group as the guarantor. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

v. *Credit risk*

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

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

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

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings.

Except for the financial guarantees given by the Group as set out in note 29, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 29.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

vi. Fair value

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

— the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

— the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

— the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default in the financial receivable guaranteed as extrapolated from market-based credit information and the amount of loss, given the default.

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.

Fair value measurements recognised in the statement of financial position

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

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

vi. *Fair value* *(Continued)*

Fair value measurements recognised in the statement of financial position (Continued)

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets	**14,450**	**—**	**—**	**14,450**
Financial guarantee liabilities	**—**	**—**	**(427)**	**(427)**

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	9,455	—	—	9,455

There were no transfers between all levels in both years.

Reconciliation of Level 3 fair value measurement of financial liabilities

	Financial guarantee liabilities *HK$'000*
At 1 January and 31 December 2009	—
Total gain or losses recognised in other comprehensive income	5
Arising on acquisition of a subsidiary	422
At 31 December 2010	427

Included in other comprehensive income is an amount of HK$5,000 relates to exchange loss arising on translating the financial guarantee liabilities denominated in RMB to HK$ (2009: nil).

7. TURNOVER AND SEGMENT INFORMATION

For the year ended 31 December 2010, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. And the chief operating decision maker of the Group reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

The Group's revenue from external customers by geographical location of the customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**884,703**	422,256	**820,869**	380,610
America	**55,269**	49,325	**—**	—
Europe	**45,647**	25,111	**—**	—
Asia other than PRC	**58,666**	41,917	**—**	—
Others	**10,469**	6,826	**—**	—
Total	**1,054,754**	545,435	**820,869**	380,610

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

Information about major customers

For the years ended 31 December 2010 and 2009, none of the Group's sales from continuing operations to a single customer amounted to 10% or more of the Group's total revenue.

8. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Rental income	969	681
Sales of raw materials, scrap and other materials, net	8,100	1,216
Dividend income	—	32
Reversal of impairment loss on trade and other receivables *(note 26)*	200	631
Gain on disposal of property, plant and equipment	—	40
Bank interest income	2,866	421
Government grants *(note)*	122,482	3,475
Gain recognised on re-measuring interest in an associate to fair value on business combination date	2,648	—
Others	3,510	1,123
	140,775	7,619

Note: During the year ended 31 December 2010, government grants of RMB100,000,000 (equivalent to approximately HK$114,943,000) were received by the Group from the 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in PRC for fulfillment of certain condition regarding the initiative of the relocation of the production facilities in Wuhan. Further details are included in note 35.

During the year ended 31 December 2010 and 2009, government grants of approximately HK$7,539,000 and HK$3,475,000 respectively have been received by the Group from the PRC Government or its agents as subsidy for the development and industrialisation of pharmaceutical products and for the encouragement of export sales by the Group without conditions attached thereto.

9. OTHER OPERATING EXPENSES

	2010 HK$'000	2009 HK$'000
Amortisation of intangible assets	330	327

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank loans wholly repayable within five years	18,068	6,812
Interest on amount due to holding company	1,687	2,000
Effective interest on convertible bond	1,345	1,951
Effective interest on promissory note	30,669	15,884
Interest on discounted bills receivable with recourse	191	200
	51,960	26,847

11. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
PRC	**5,794**	8,315
Deferred tax *(note 32)*	**(1,905)**	(1,442)
	3,889	6,873

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

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

The income tax charge for the year is reconciled to the consolidated profit before tax as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before tax	**158,166**	48,786
Tax at the domestic income tax rate of 25% (2009: 25%)	**39,542**	12,196
Tax effect of share of profit of associates	**(787)**	(1,295)
Tax effect of expenses not deductible for tax purpose	**12,969**	10,177
Tax effect of income not taxable for tax purpose	**(36,881)**	(5,301)
Utilisation of deductible temporary differences previously not recognised	**—**	(715)
Income tax on concessionary rate	**(6,385)**	(8,268)
Tax effect of tax losses not recognised	**—**	79
Utilisation of tax losses previously not recognised	**(4,569)**	—
Tax charge for the year	**3,889**	6,873

The applicable tax rate of 25% (2009: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profits streams. Included in the above are tax losses of nil (2009: HK$316,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

12. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**105,497**	45,309
— Retirement benefits schemes contributions	**6,885**	5,373
	112,382	50,682
Depreciation of property, plant and equipment	**29,429**	11,282
Amortisation of prepaid lease payments	**5,927**	5,006
Amortisation of intangible assets	**330**	327
Total depreciation and amortisation	**35,686**	16,615
Auditors' remuneration		
— audit services	**1,500**	550
— non-audit services	**1,870**	—
Share of tax of associates	**342**	1,256
Cost of inventories recognised as an expense	**679,947**	295,341
Operating lease rentals in respect of land and buildings	**4,667**	1,875
Loss on disposal of available-for-sale financial assets	**—**	187
Loss (gain) on disposal of property, plant and equipment	**1,526**	(40)
Impairment loss on inventories	**961**	292
Impairment losses on financial assets		
— trade and other receivables	**2,682**	838
— reversal of impairment loss on trade and other receivables	**(200)**	(631)
Impairment losses on financial assets, net	**2,482**	207
Net foreign exchange losses	**4,282**	1,011

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: nil).

14. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**97,973**	28,344
Effect of dilutive potential ordinary shares:		
Interest on convertible bond	**1,345**	1,951
Profit for the year for the purposes of diluted earnings per share	**99,318**	30,295

	2010	2009
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,477,418,331**	1,138,370,040
Effect of dilutive potential ordinary shares:		
Convertible bond	**23,234,565**	176,666,667
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,500,652,896**	1,315,036,707

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share in 2009 has been adjusted to reflect the bonus element in the issuance of shares under the open offer of the Company's shares during the year ended 31 December 2010.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:	**2010** *HK$'000*	2009 *HK$'000*
Fees:		
Executive directors	**150**	—
Independent non-executive directors	**300**	300
	450	300
Other emoluments		
Salaries and allowances	**1,013**	838
Retirement benefits scheme contributions	**12**	6
	1,475	1,144

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2010 and 2009.

The emoluments paid or payable to each of the seven (2009: seven) directors for the year ended 31 December 2010 were as follows:

	Fees *HK$'000*	**Salaries and allowances** *HK$'000*	**Retirement benefits schemes contributions** *HK$'000*	**Total** *HK$'000*
Executive directors:				
Mr. Liu Chengwei	50	—	—	50
Mr. Hu Bo	50	—	—	50
Mr. Shao Yan	—	1,013	12	1,025
Mr. Zhang Ji *(note)*	50	—	—	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	—	—	180
Mr. Lo Kai, Lawrence	60	—	—	60
Mr. Xin Dongsheng	60	—	—	60
Total	450	1,013	12	1,475

Note: Mr. Zhang Ji was re-designated as executive director of the Company with effect from 12 February 2010.

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

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2009 are as follows:

	Fees	Salaries and allowances	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Liu Chengwei	—	—	—	—
Mr. Hu Bo	—	—	—	—
Mr. Shao Yan	—	838	6	844
Non-executive director:				
Mr. Zhang Ji *(note)*	—	—	—	—
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	—	—	180
Mr. Lo Kai, Lawrence	60	—	—	60
Mr. Xin Dongsheng	60	—	—	60
Total	300	838	6	1,144

During both years ended 31 December 2010 and 2009, no directors of the Company waived any emoluments.

(b) The five highest paid individuals of the Group included one (2009: one) director whose emoluments were included above. The emoluments of the remaining four (2009: four) highest paid individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Employees		
Salaries and allowances	**2,539**	1,582
Retirement benefits schemes contributions	**32**	30
	2,571	1,612

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

(b) *(Continued)*

Their emoluments were within the following bands:

	2010 No. of employees	2009 No. of employees
HK$nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**1**	—
	4	4

During both years ended 31 December 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Allocated land	Plant and machinery	Motor vehicles	Equipment	Others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
At 1 January 2009	53,630	—	62,127	4,322	4,431	412	13,408	138,330
Additions	826	—	7,037	4,568	444	—	4,832	17,707
Disposals	—	—	(109)	(888)	(12)	—	—	(1,009)
Transfer	12,129	—	3,216	—	—	—	(15,345)	—
At 31 December 2009 and at 1 January 2010	66,585	—	72,271	8,002	4,863	412	2,895	155,028
Additions	15,545	—	16,203	1,812	2,917	—	14,128	50,605
Acquired on acquisition of subsidiaries	148,740	1,745	120,458	2,706	2,989	—	7,647	284,285
Disposals	(494)	—	(479)	(332)	(107)	—	(3,142)	(4,554)
Transfer	1,269	—	3,755	—	26	—	(5,050)	—
Exchange realignment	5,988	39	5,599	365	296	—	404	12,691
At 31 December 2010	237,633	1,784	217,807	12,553	10,984	412	16,882	498,055
Accumulated depreciation and impairment								
At 1 January 2009	1,735	—	2,269	156	1,521	412	—	6,093
Depreciation provided for the year	3,998	—	5,854	536	894	—	—	11,282
Eliminated on disposals	—	—	(75)	(246)	(3)	—	—	(324)
At 31 December 2009 and at 1 January 2010	5,733	—	8,048	446	2,412	412	—	17,051
Depreciation provided for the year	8,111	—	18,200	1,503	1,615	—	—	29,429
Eliminated on disposals	(86)	—	(427)	(39)	(70)	—	—	(622)
Exchange realignment	405	—	702	50	122	—	—	1,279
At 31 December 2010	14,163	—	26,523	1,960	4,079	412	—	47,137
Carrying values								
At 31 December 2010	223,470	1,784	191,284	10,593	6,905	—	16,882	450,918
At 31 December 2009	60,852	—	64,223	7,556	2,451	—	2,895	137,977
At 1 January 2009	51,895	—	59,858	4,166	2,910	—	13,408	132,237

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

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

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

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

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

An allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 40.

17. PREPAID LEASE PAYMENTS

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

	2010 ***HK$'000***	2009 *HK$'000*
At beginning of year	**201,505**	206,511
Arising on acquisition of subsidiaries	**53,155**	—
Amortisation for the year	**(5,927)**	(5,006)
Exchange realignment	**4,058**	—
At end of year	**252,791**	201,505

17. PREPAID LEASE PAYMENTS *(Continued)*

Certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 40.

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Analysed for reporting purposes as:			
Current assets	**6,677**	5,006	5,044
Non-current assets	**246,114**	196,499	201,467
	252,791	201,505	206,511

18. INTERESTS IN ASSOCIATES

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Cost of unlisted investments	**1,153**	38,408	35,454
Share of post-acquisition profits and other comprehensive income	**3,923**	6,474	1,291
Share of net assets of associates	**5,076**	44,882	36,745

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

	31 December 2010 HK$'000	31 December 2009 HK$'000
Total assets	**11,269**	86,948
Total liabilities	**(909)**	(7,927)
Net assets	**10,360**	79,021
Group's share of net assets of associates	**5,076**	44,251

18. INTERESTS IN ASSOCIATES *(Continued)*

	Year ended 31 December 2010 HK$'000	Year ended 31 December 2009 HK$'000
Revenue	**59,863**	148,006
Profit for the year	**5,757**	9,576
Group's share of profits and other comprehensive income of associates for the year	**3,149**	5,183

Details of the principal associates as at 31 December 2010 and 2009 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest attributable to the Group for associates 2010	2009	Particulars of issued/paid-up capital	Principal activities
Wuhan Grand Hoyo	PRC/PRC	Limited liability company	— *(note a)*	39.75%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Wuhan Grand Hoyo Pharmaceutical Company Ltd ("WG Hoyo Pharm")	PRC/PRC	Limited liability company	— *(note a)*	39.75%	Paid up capital RMB20,500,000	Manufacture and distribution of amino acid products
Yangxin Fuxin Chemical Company Limited ("Yangxin Fuxin") *(note b)*	PRC/PRC	Limited liability company	29.75%	—	Contributed capital RMB2,000,000	Production and sales fine chemicals and chemical medicine

Notes:

(a) During the year ended 31 December 2009, Wuhan Grand own 56% equity interests in Wuhan Grand Hoyo, however, the Group had no control in Wuhan Grand Hoyo as the Group only has the right to nominate 3 out of 7 directors of Wuhan Grand Hoyo. The directors of the Company considered that the Group had significant influence over Wuhan Grand Hoyo but did not have control over it and therefore Wuhan Grand Hoyo was classified as an associate of the Group for the year ended 31 December 2009. On 24 February 2010, the Articles of Association of Wuhan Grand Hoyo were amended and the Group was empowered to nominate 4 out of 7 directors of Wuhan Grand Hoyo. Since then, Wuhan Grand Hoyo with its 2 wholly owned subsidiaries, namely Hubei Wuda Hongyuan Biological Technology Company Ltd and WG Hoyo Pharm, became the subsidiaries of the Group and were accordingly accounted for as such in the consolidated financial statements.

(b) Yangxin Fuxin was an associate of Hubei Fuchi and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010. Details are disclosed in notes 38(i) and 44(a)(iii).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Listed securities:			
— Listed equity securities in the PRC at fair value	**14,450**	9,455	2,967
Unlisted securities:			
— Unlisted debt securities, at cost	**—**	93	317
— Unlisted equity securities, at cost	**20,605**	19,874	20,061
	35,055	29,422	23,345

The balances of the available-for-sale listed securities as at 31 December 2009 have been restated from HK$824,000 to HK$9,455,000 (at 1 January 2009: from HK$824,000 to HK$2,967,000), as a result of the prior year adjustments (note 1).

The above debt securities represented debt securities with fixed interest ranging from 7.8% to 10.1% per annum (2009: 7.8% to 10.1% per annum) and were matured during 2010. The balances were stated at cost less impairment and were not restated.

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

20. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Purchase of land use rights *(note a)*	**34,741**	—	—
Purchase of a building *(note b)*	**1,327**	—	—
Acquisition of additional interest in a subsidiary *(note c)*	**6,376**	—	—
	42,444	—	—

Note:

(a) On 26 September 2010, Zhejiang Xianle entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB6,000,000 (equivalent to approximately HK$7,059,000) within a specified period as stipulated in the agreement. Deposits of RMB3,500,000 (equivalent to approximately HK$4,118,000) were paid before the end of the year.

20. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS *(Continued)*

Note: (Continued)

(a) On 15 October 2010, Wuhan Grand entered into an agreement with the relevant government authority to acquire land use right of a piece of land located in the PRC. The total consideration of the land use right amounting to RMB28,200,000 in which RMB20,000,000 (equivalent to approximately HK$23,529,000) was paid by Wuhan Grand as deposits.

On 22 December 2010, Hubei Fuchi paid RMB6,030,000 (equivalent to approximately HK$7,094,000) to the relevant government authority for the purpose of amending the usage of certain government allocated lands as industrial lands. As at 31 December 2010, the Group was in the process of obtaining the updated land use right certificates with revised usage.

(b) During the year, Zhejiang Xianle prepaid RMB1,128,000 (equivalent to approximately HK$1,327,000) to an independent third party to acquire a building with a contract price of RMB1,880,000.

(c) On 27 December 2010, Wuhan Grand entered into an agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) ("Wuhan Donghu") to acquire a 6.4% equity interest in Wuhan Grand Hoyo with a consideration of RMB5,420,000 (equivalent to approximately HK$6,376,000) and a deposit for the amount was paid before the current year end date.

Details of the above transactions are disclosed in the Company's announcement dated 28 December 2010.

The acquisition has not yet been completed as at 31 December 2010.

21. GOODWILL

	HK$'000
Arising on acquisition of a subsidiary	54,944
Impairment	—
At 31 December 2010	54,944

During the year ended 31 December 2010, the Group acquired 67% equity interest in Zhejiang Xianle with a goodwill of approximately HK$54,944,000. Details are set out in note 38(iv).

Goodwill acquired in a business combination is allocated, on acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The management considers the subsidiary acquired during the year represents a separate CGU for the purpose of goodwill impairment testing.

21. GOODWILL *(Continued)*

The recoverable amounts of the above CGU are determined from value-in-use calculations. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and the discount rate of 15% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Based on the aforesaid value-in-use calculations, the directors considered no impairment loss of goodwill as at 31 December 2010.

22. INTANGIBLE ASSETS

	Acquired patent rights HK$'000 (note a)	Acquired exclusive distribution rights HK$'000 (note b)	Total HK$'000
Cost			
At 1 January 2009, 31 December 2009 and 1 January 2010	1,742	14,000	15,742
Written-off *(note b)*	—	(14,000)	(14,000)
Exchange realignment	62	—	62
At 31 December 2010	1,804	—	1,804
Accumulated amortisation and impairment loss			
At 1 January 2009	163	14,000	14,163
Provided for the year	327	—	327
At 31 December 2009 and 1 January 2010	490	14,000	14,490
Provided for the year	330	—	330
Written-off *(note b)*	—	(14,000)	(14,000)
Exchange realignment	26	—	26
At 31 December 2010	846	—	846
Carrying values			
As at 31 December 2010	958	—	958
As at 31 December 2009	1,252	—	1,252
As at 1 January 2009	1,579	—	1,579

22. INTANGIBLE ASSETS *(Continued)*

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

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

Notes:

(a) During the year ended 31 December 2008, the Group acquired the patent rights of eye drops from Long Smart Investments Limited ("Long Smart"), a wholly-owned subsidiary of Outwit.

(b) In August 2005, the Group entered into an agreement with a third party to acquire a subsidiary, Seapearl Trading Limited ("Seapearl"), at a consideration of HK$14,000,000. This subsidiary had an exclusive license for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by an independent third party in any parts of the world other than the PRC. The value of the acquired distribution rights was amortised on the straight-line basis over 10 years. For the year ended 31 December 2010, Seapearl was deregistered and thus the relevant exclusive license was written off.

Impairment testing on intangible assets

The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2010. The directors assess the impairment with reference to the estimated recoverable amount based on the higher of cash flow forecast from future use and the disposal value, and the estimated recoverable amount of the intangible assets was approximately HK$958,000. The discount rate in measuring the amount of value in use was 15% in relation to patent rights (2009: 6%). Accordingly, no impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2010.

The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2007 with reference to the current results from the business and consideration on the ability to generate future cash flows. The directors considered that there would be no economic benefit generated from the distribution rights and determined the recoverable amount of the intangible assets is nil. Accordingly, the distribution rights had been fully impaired during the year ended 31 December 2007.

23. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the year:

	Impairment loss on trade and other receivables HK$'000	Tax losses HK$'000	Total HK$'000
Arising on acquisition of subsidiaries	33	2,138	2,171
Exchange realignment	—	50	50
At 31 December 2010	33	2,188	2,221

As at 31 December 2010, the Group has unused tax losses of HK$55,606,000 (2009: HK$316,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK$8,752,000 (2009: nil) of such losses. No deferred tax assets have been recognised in respect of the remaining tax losses of HK$46,854,000 (2009: HK$316,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination.

24. PREPAYMENTS

The amount represented prepayment of RMB17,352,000 (equivalent to approximately HK$20,415,000) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

25. INVENTORIES

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Raw materials	**73,336**	11,744	15,289
Work-in-progress	**73,911**	17,472	13,289
Finished goods	**72,027**	27,897	37,570
	219,274	57,113	66,148
Less: impairment loss	**(3,106)**	(2,145)	(1,853)
	216,168	54,968	64,295

26. TRADE AND OTHER RECEIVABLES

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Trade receivables	**105,879**	30,306	22,462
Bills receivables	**86,380**	21,821	25,276
Discounted bills receivable	**—**	17,195	—
Other receivables, deposits and prepayments	**63,553**	21,855	22,472
Less: impairment loss on other receivables	**(9,407)**	(5,481)	(5,389)
	246,405	85,696	64,821

The Group allows a credit period of 30 — 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	31 December 2010 HK$'000	31 December 2009 HK$'000
Within 90 days	**99,630**	29,252
91 — 180 days	**8,161**	2,999
181 — 365 days	**1,743**	39
Over 365 days	**30,249**	27,777
	139,783	60,067
Less: Accumulated impairment	**(33,904)**	(29,761)
	105,879	30,306

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Trade receivables amounted to approximately HK$95,985,000 as at 31 December 2010 (2009: HK$25,889,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**29,761**	35,400
Arising on acquisition of subsidiaries	**5,775**	—
Impairment losses recognised	**1,961**	701
Impairment losses reversed	**(84)**	(589)
Amount written off as uncollectible	**(5,416)**	(5,751)
Exchange realignment	**1,907**	—
Balance at end of the year	**33,904**	29,761

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

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

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**5,481**	5,389
Arising on acquisition of subsidiaries	**3,019**	—
Impairment losses reversed	**(116)**	(42)
Amount written off as uncollectible	**—**	(3)
Impairment losses recognised on other receivables	**721**	137
Exchange realignment	**302**	—
Balance at end of the year	**9,407**	5,481

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Included in the Group's trade receivable balances are balances with aggregate carrying amount of HK$9,894,000 (2009: 4,417,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 119 days (2009: 100 days).

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*
Within 90 days	**7,747**	3,577
91 — 180 days	**1,658**	840
181 — 365 days	**489**	—
	9,894	4,417

27. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

	HK$'000	*USD'000*
As at 31 December 2010	15,121	773
As at 31 December 2009	51	37
As at 1 January 2009	9	38

Pledged bank deposits and bank balances and cash carry interest at the prevailing market interest rates.

Pledged bank deposits represent deposits pledged to bank to secure the issuance of bills payable and therefore are classified as current assets.

28. TRADE AND OTHER PAYABLES

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Trade payables	**89,285**	42,316	41,367
Bills payables	**46,745**	21,035	37,302
Accrued charges and other creditors	**158,514**	74,553	63,571
	294,544	137,904	142,240

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

	31 December 2010 HK$'000	31 December 2009 HK$'000
Within 90 days	**64,849**	24,624
Over 90 days	**24,436**	17,692
	89,285	42,316

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

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

29. FINANCIAL GUARANTEE LIABILITIES

The movement of the financial guarantee liabilities is set out below:

	HK$'000
Arising on acquisition of a subsidiary	422
Exchange realignment	5
At 31 December 2010	427

As at 31 December 2010, the Group provided financial guarantees to banks in respect of banking facilities granted to certain third parties. The aggregate amounts that the Group is required to be paid if the guarantees were called upon their entirety amounted to approximately HK$34,412,000 as at 31 December 2010.

30. BANK BORROWINGS

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
Bank loans (secured)	**346,717**	92,195	95,454
Carrying amount repayable:			
On demand or within one year	**306,717**	69,468	77,273
More than one year but not exceeding two years	**40,000**	22,727	18,181
	346,717	92,195	95,454

As at 31 December 2010, certain bank loans are guaranteed by an independent third party and secured by the allocated land, buildings and prepaid lease payments of the Group in the PRC as detailed in note 40 and assets owned by a non-controlling interests and independent third parties.

Other than the amount HK$3,188,000 (2009: nil) and HK$30,000,000 (2009: nil) which are denominated in USD and HK$ respectively, the Group's bank loans are denominated in RMB.

All bank loans are granted by banks in the PRC and Macau.

Except for the USD bank loans that was charged at fixed interest rate of 0.59% (2009: nil) per annum, all other bank loans bear variable interest rates from 2.56% to 5.56% (2009: 5.31% to 5.58%) per annum.

31. CONVERTIBLE BOND

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

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

During the year ended 31 December 2010, the whole amount of the CB was converted to 166,666,667 ordinary shares of the Company at the conversion price of HK$0.3 per share. Further details are set out in note 36.

The movement of the liability component of the CB is set out below:

	HK$'000
At 1 January 2009	48,296
Interest payable	(1,250)
Interest expenses charged	1,951
At 31 December 2009	48,997
Interest paid	(342)
Interest expenses charged	1,345
Converted into ordinary shares of the Company	(50,000)
At 31 December 2010	—

32. DEFERRED TAX LIABILITIES

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

	Convertible bond	Buildings and prepaid lease payments	Available-for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)
At 1 January 2009, as previously reported	488	44,195	—	44,683
Prior year adjustments *(note 1)*	—	—	536	536
At 1 January 2009, as restated	488	44,195	536	45,219
Charged directly to equity	—	—	1,622	1,622
Credited to profit or loss	(323)	(1,119)	—	(1,442)
At 31 December 2009, as restated	165	43,076	2,158	45,399
At 1 January 2010, as previously reported	165	43,076	—	43,241
Prior year adjustments *(note 1)*	—	—	2,158	2,158
At 1 January 2010, as restated	165	43,076	2,158	45,399
Fair value adjustment from acquisition of subsidiaries	—	22,401	—	22,401
Charged directly to equity	—	—	1,249	1,249
Credited to profit or loss	(165)	(1,740)	—	(1,905)
Exchange realignment	—	477	—	477
At 31 December 2010	—	64,214	3,407	67,621

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$5,707,000 (2009: HK$2,805,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. AMOUNT DUE TO HOLDING COMPANY

For the year ended 31 December 2010, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

For the year ended 31 December 2009, the amount is unsecured, interest bearing at 10% per annum and not repayable within next twelve months.

34. PROMISSORY NOTE/OTHER PAYABLE

On 24 February 2009, the Company issued an unsecured promissory note with principal value of HK$150,000,000 as part of the consideration for the acquisition of the entire share capital of Best Forward Group Limited.

The promissory note bears interest of 5% per annum and is repayable within two years from 24 February 2009.

The promissory note is subsequently measured at amortised cost, using effective interest rates at 14.47%.

The promissory note was recorded as other payable at amortised cost as at 31 December 2008 before issue.

The movement of the promissory note/other payable is set out below:

	HK$'000
At 1 January 2009	128,191
Interest expenses charged	15,884
Fair value gain on issuance of promissory note	(17,244)
At 31 December 2009 and 1 January 2010	126,831
Interest expenses charged	30,669
Interest paid	(7,500)
Redemption of promissory note	(150,000)
At 31 December 2010	—

35. DEFERRED INCOME

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

On 25 November 2010, Wuhan Grand entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Wuhan Grand's agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Wuhan Grand (the "Relocation"). The compensation, as mutually agreed between Wuhan Grand and the Land Reserve Centre, amounts to RMB855,000,000 (equivalent to approximately HK$991,912,000) (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 (equivalent to approximately HK$991,912,000) is comprising (i) a relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000); (ii) compensation for loss of profits of RMB85,500,000 (equivalent to approximately HK$99,180,000); and (iii) other compensation of RMB669,500,000 (equivalent to approximately HK$777,789,000), which shall be payable by the Land Reserve Centre to Wuhan Grand as follows:

1. RMB171,000,000 (equivalent to approximately HK$198,472,000), which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Wuhan Grand before the current year end date upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation.

2. RMB85,500,000 (equivalent to approximately HK$99,180,000), is payable within 30 working days upon completion of the responsibilities of Wuhan Grand as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount is yet to be received by the Group as at the date of approval of these financial statements.

35. DEFERRED INCOME *(Continued)*

3. RMB427,500,000 (equivalent to approximately HK$495,900,000), being 50% of the Compensation, is payable commencing from the completion of the Second Payment by semi-annual instalments of RMB85,500,000 (equivalent to approximately HK$99,180,000) each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Wuhan Grand (in which case the instalment payments will be consolidated or accelerated), whichever is earlier; and

4. the last instalment of RMB171,000,000 (equivalent to approximately HK$198,360,000) is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Wuhan Grand and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Wuhan Grand.

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

The relocation commencement fee of RMB100,000,000, being part of the First Instalment, was received by Wuhan Grand upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit and loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit and loss will be deferred until the completion of the Relocation.

35. DEFERRED INCOME *(Continued)*

The movement of deferred income during the year is set out below:

	HK$'000
Compensation received during the year	198,472
Amount recognised in profit or loss	(114,943)
At 31 December 2010	83,529

36. SHARE CAPITAL

	Number of shares at		Share Capital at	
	31 December 2010 '000	1 January 2009 and 31 December 2009 '000	**31 December 2010 HK$'000**	1 January 2009 and 31 December 2009 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At beginning of year	**1,073,934**	1,073,934	**10,739**	10,739
Issue of shares pursuant to a subscription agreement *(note a)*	**200,000**	—	**2,000**	—
Issue of shares on conversion of convertible bond *(note b)*	**166,667**	—	**1,667**	—
Issue of shares pursuant to an open offer *(note c)*	**480,200**	—	**4,802**	—
At end of year	**1,920,801**	1,073,934	**19,208**	10,739

Notes:

(a) On 15 January 2010, Outwit entered into a subscription agreement with the Company and agreed to subscribe for 200,000,000 ordinary shares of HK$0.01 each in the share capital of the Company at a subscription price of HK$0.45 per share.

(b) On 18 February 2010, convertible bond amounted to HK$50,000,000 was converted into 166,666,667 ordinary shares at the conversion price of HK$0.3 per share.

(c) On 31 December 2010, 480,200,221 shares were issued pursuant to an open offer to the existing shareholders of the Company to subscribe for 1 offer share for every 3 existing shares held at a price of HK$0.58 per share.

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

37. SHARE OPTIONS

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

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

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

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

There was no share options outstanding and granted throughout the years ended 31 December 2010 and 2009.

38. ACQUISITION OF SUBSIDIARIES

(i) Hubei Fuchi

On 2 March 2010, Wuhan Grand and 33 shareholders of Hubei Fuchi (the "Fuchi Vendors") entered into an agreement whereby, Wuhan Grand agreed to acquire 75.47% of equity interests in Hubei Fuchi from the Fuchi Vendors at a consideration of approximately RMB117 million (approximately to HK$135 million). The transaction was completed on 20 May 2010. The aggregate consideration of RMB117 million has been settled by cash.

Acquisition-related costs amounting to HK$600,000 have been excluded from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Hubei Fuchi *(Continued)*

The net assets acquired in the transaction and the gain on bargain purchase arising therefrom are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	80,015	33,196	113,211
Prepaid lease payments	1,508	16,322	17,830
Interest in associate	4,435	—	4,435
Inventories	54,163	—	54,163
Trade and bills receivables	36,087	—	36,087
Other receivables	83,485	—	83,485
Amount due from associate	3,954	—	3,954
Deferred tax assets	2,138	—	2,138
Bank balances and cash	59,964	—	59,964
Trade and other payables	(130,724)	—	(130,724)
Tax liabilities	(23,984)	—	(23,984)
Deferred tax liabilities	—	(12,379)	(12,379)
Non-controlling interests	(7,291)	—	(7,291)
	163,750	37,139	200,889
Non-controlling interests			(49,278)
Gain on bargain purchase			(16,324)
Total consideration			135,287
Satisfied by:			
Cash			135,287
Net cash outflow arising on acquisition:			
Consideration paid in cash			(135,287)
Less: Bank balances and cash acquired			59,964
			(75,323)

The gain on bargain purchase on acquisition of subsidiary was attributable to the ability of the Group in negotiating the agreed terms with the Fuchi Vendors.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Hubei Fuchi *(Continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year is an amount of HK$8,010,000 contributed by Hubei Fuchi. Revenue for the year includes HK$169,606,000 in respect of Hubei Fuchi.

Had the acquisition of Hubei Fuchi been effected at 1 January 2010, the Group's revenue for the year would have been HK$1,133,425,000 and the consolidated profit for the year would have been HK$155,336,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

(ii) Hubei Ruizhu

On 2 March 2010, Wuhan Grand and two independent third parties (the "Hubei Ruizhu Vendors") entered into an agreement whereby, Wuhan Grand agreed to acquire 100% equity interests in Hubei Ruizhu from the Hubei Ruizhu Vendors at a consideration of approximately RMB110 million. The transaction was completed on 29 April 2010. The aggregate consideration of RMB110 million (approximately HK$126 million) has been settled by cash of RMB40,907,511 (approximately HK$47,019,000) and a loan of RMB69,092,489 (approximately HK$79,417,000) to Hubei Ruizhu to repay the former fellow subsidiary.

Acquisition-related costs amounting to HK$600,000 have been excluded from the cost of acquisition and have been recognised as expenses in the year and included in the administrative expenses.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(ii) Hubei Ruizhu *(Continued)*

The net assets acquired in the transaction and the gain on bargain purchase arising therefrom, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	105,352	3,246	108,598
Prepaid lease payments	6,191	21,395	27,586
Inventories	2,012	—	2,012
Trade and bills receivables	308	—	308
Bank balances and cash	1,863	—	1,863
Trade and other payables	(81,164)	—	(81,164)
Tax liabilities	(716)	—	(716)
Deferred tax liabilities	—	(6,160)	(6,160)
	33,846	18,481	52,327
Loan advanced to Hubei Ruizhu			79,417
Gain on bargain purchase			(5,307)
Total consideration			126,437
Satisfied by:			
Cash			126,437
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(126,437)
Less: Bank balances and cash acquired			1,863
			(124,574)

The gain on bargain purchase on acquisition of subsidiary was attributable to the ability of the Group in negotiating the agreed terms with the Hubei Ruizhu Vendors.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(ii) Hubei Ruizhu *(Continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year is an amount of HK$8,114,000 contributed by Hubei Ruizhu. Revenue for the year includes HK$19,158,000 in respect of Hubei Ruizhu.

Had the acquisition of Hubei Ruizhu been effected at 1 January 2010, the Group's revenue for the year would have been HK$1,058,299,000 and the consolidated profit for the year would have been HK$144,105,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved has the acquisition been completed at 1 January, nor is it intended to be a projection of future results.

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

(iii) Wuhan Grand Hoyo

During the year ended 31 December 2009, Wuhan Grand own 56% equity interests in Wuhan Grand Hoyo, however, the Group had no control in Wuhan Grand Hoyo as the Group only has the right to nominate 3 out of 7 directors of Wuhan Grand Hoyo. The directors of the Company considered that the Group had significant influence over Wuhan Grand Hoyo but did not have control over it and therefore Wuhan Grand Hoyo was classified as an associate of the Group for the year ended 31 December 2009. On 24 February 2010, the Articles of Association of Wuhan Grand Hoyo was amended and the Group was empowered to nominate 4 out of 7 directors of Wuhan Grand Hoyo. As a result, the Group has controlled the majority composition of the Board of directors of Wuhan Grand Hoyo, and accordingly Wuhan Grand Hoyo became a subsidiary of the Group and its results, assets and liabilities were then consolidated into the Group's consolidated financial statements since 24 February 2010.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(iii) Wuhan Grand Hoyo *(Continued)*

The net assets acquired in the transaction and the gain recognised as a result of remeasuring the interest in an associate to fair value on the business combination date arising therefrom are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	22,368	8,735	31,103
Prepaid lease payments	4,006	477	4,483
Inventories	26,156	—	26,156
Trade and bills receivables	40,480	—	40,480
Bank balances and cash	4,671	—	4,671
Trade and other payables	(13,191)	—	(13,191)
Tax liabilities	(913)	—	(913)
Deferred tax liabilities	—	(2,303)	(2,303)
	83,577	6,909	90,486
Non-controlling interests			(39,813)
			50,673
Gain recognised on re-measuring interest in an associate to fair value on the business combination date			(2,648)
Total consideration			48,025
Satisfied by:			
Interest in an associate			48,025
Net cash inflow arising on acquisitions:			
Bank balances and cash acquired			4,671

The business combination was accounted for using the purchase method of accounting as at the business combination date.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(iii) Wuhan Grand Hoyo *(Continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for year is an amount of HK$8,222,000 contributed by Wuhan Grand Hoyo. Revenue for the year includes HK$155,737,000 in respect of Wuhan Grand Hoyo.

Had the acquisition of Wuhan Grand Hoyo been effected at 1 January 2010, the Group's revenue for the year would have been HK$1,099,234,000 and the consolidated profit for the year would have been HK$158,924,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

(iv) Zhejiang Xianle

On 30 June 2010, the Company and an independent third party (the "Xianle Vendor") entered into an agreement whereby, the Company agreed to acquire 67% equity interests in Zhejiang Xianle from the Xianle Vendor at a consideration of approximately HK$108 million. The transaction was completed on 20 September 2010. The consideration has been settled by cash.

Acquisition-related costs amounting to HK$750,000 have been excluded from the cost of acquisition and recognised as expenses in the year end, included in the administrative expenses.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(iv) Zhejiang Xianle *(Continued)*

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	25,753	5,620	31,373
Prepaid lease payments	2,640	616	3,256
Inventories	44,661	—	44,661
Trade and bills receivables	33,787	—	33,787
Other receivables	5,942	—	5,942
Deferred tax asset	33	—	33
Bank balances and cash	16,633	—	16,633
Pledged bank deposits	9,186	—	9,186
Trade and other payables	(42,350)	—	(42,350)
Financial guarantee liabilities	(422)	—	(422)
Bank borrowings	(16,116)	—	(16,116)
Tax liabilities	(5,195)	—	(5,195)
Deferred tax liabilities	—	(1,559)	(1,559)
	74,552	4,677	79,229
Non-controlling interests			(26,146)
Goodwill arising on acquisition			54,944
Total consideration			108,027
Satisfied by:			
Cash			108,027
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(108,027)
Less: Bank balances and cash acquired			16,633
			(91,394)

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(iv) Zhejiang Xianle *(Continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year is an amount of HK$3,734,000 contributed by Zhejiang Xianle. Revenue for the year includes HK$40,472,000 in respect of Zhejiang Xianle.

Had the acquisition of Zhejiang Xianle been effected at 1 January 2010, the Group's revenue for the year would have been HK$1,208,475,000 and the consolidated profit for the year would have been HK$164,081,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

39. RELATED PARTY TRANSACTIONS

Other than the amount due to holding company as disclosed in note 33, no other significant transactions with related parties were entered into during the years ended 31 December 2010 and 2009.

Compensation of key management personnel

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

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	**3,552**	2,720
Post-employment benefits	**44**	36
	3,596	2,756

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

40. PLEDGE OF ASSETS

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

	2010	2009
	HK$'000	HK$'000
Prepaid lease payments	7,747	174,619
Allocated land	1,784	—
Buildings	35,915	29,645
Pledged bank deposits	52,692	1,403
	98,138	205,667

41. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2010	2009
	HK$'000	HK$'000
Within one year	3,456	337
In the second to fifth year inclusive	5,986	1,074
	9,442	1,411

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

41. COMMITMENTS *(Continued)*

(a) Operating lease commitment *(Continued)*

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$969,000 (2009: HK$681,000). The total future minimum lease payments from tenants under non-cancellable operating lease are as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**515**	433
In the second to fifth year inclusive	**204**	145
	719	578

(b) Capital commitment

	2010	2009
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**33,105**	780

42. RETIREMENT BENEFITS SCHEMES

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

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

42. RETIREMENT BENEFITS SCHEMES *(Continued)*

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

43. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2010, convertible bond amounted to HK$50,000,000 was converted to 166,666,667 ordinary shares at the conversion price of HK$0.3 per share. Further details are set out in note 36(b) above.

(b) Pursuant to a special resolution passed at the Company's annual general meeting in the year of 2010, an amount of approximately HK$230,406,000 standing to the credit of the share premium account of the Company as at 28 February 2010 was reduced to zero balance and to the credit arising therefrom was credited to the contributed surplus account of the Company to set off the accumulated losses of the aggregate amount of approximately HK$109,133,000 of the Company as at 28 February 2010.

44. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY

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

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**442**	—
Investments in subsidiaries	(a)	**394,407**	200,000
		394,849	200,000
Current assets			
Trade and other receivables		**2,910**	402
Bank balances and cash		**15,123**	51
		18,033	453
Current liabilities			
Trade and other payables		**2,428**	2,911
Convertible bond		—	48,997
Bank borrowings		**30,000**	—
		32,428	51,908
Net current liabilities		**(14,395)**	(51,455)
Total assets less current liabilities		**380,454**	148,545
Non-current liabilities			
Deferred taxation		—	166
Amount due to holding company		**12,580**	22,229
Promissory note/other payable		—	126,831
		12,580	149,226
Net assets (liabilities)		**367,874**	(681)
Capital and reserves			
Share capital		**19,208**	10,739
Reserves	(b)	**348,666**	(11,420)
		367,874	(681)

44. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY *(Continued)*

(a) Investments in subsidiaries

	Company 2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**394,407**	200,000

The following is a list of principal subsidiaries of the Company as at 31 December 2010 and 2009:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held 2010	2009	Particulars of issued/paid-up capital	Principal activities
Wuhan Grand *(note i)*	PRC	Limited liability company	**73.67%**	70.98%	Contributed capital RMB185,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao Pharmaceutical Co., Limited	PRC	Limited liability company	**72.72%**	70.06%	Contributed capital RMB31,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo *(note ii)*	PRC	Limited liability company	**41.26%**	39.75%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi *(note iii)*	PRC	Limited liability company	**60.72%**	—	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine.
Hubei Ruizhu *(note iv)*	PRC	Limited liability company	**73.67%**	—	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops.
Zhejiang Xianle *(note v)*	PRC	Limited liability company	**67%**	—	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates

44. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY *(Continued)*

(a) Investments in subsidiaries *(Continued)*

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.

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

Notes:

(i) Pursuant to the general meeting held by Wuhan Grand on 16 March 2010, the capital of Wuhan Grand was increased by RMB100,000,000 in which 75.95% of the increase in capital was subscribed by the Group. As a result, the effective equity interest held by the Group in Wuhan Grand was increased from 70.98% to 73.67%.

(ii) As disclosed in note 38(iii) above, Wuhan Grand Hoyo became a subsidiary of the Group during the current year for the reason as mentioned therein.

The effective equity interest in Wuhan Grand Hoyo held by the Group increased from 39.75% as at 31 December 2009 to 41.26% in the current year was resulted from the Group's further investment in Wuhan Grand Group as in note 44(a)(i) above.

(iii) A 75.47% equity interest in Hubei Fuchi was acquired by Wuhan Grand during the year as further detailed in note 38(i) above. Pursuant to two sales and purchase agreements entered into on 20 July 2010, a further 6.95% equity interest in Hubei Fuchi was purchased by Wuhan Grand during the year. As a result, the effective equity interest held by the Group in Hubei Fuchi was increased to 60.72%.

(iv) As further detailed in Note 38(ii), in the entire equity interest in Hubei Ruizhu was acquired by Wuhan Grand pursuant to an agreement dated on 2 March 2010. The effective equity interest in Hubei Ruizhu held by the Group is 73.67%.

(v) As disclosed in Note 38(iv), the Company entered into an agreement to acquire 67% shareholding in Zhejiang Xianle on 30 June 2010. The effective equity interest in Zhejiang Xianle held by the Group is 67% upon the completion of the acquisition.

44. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY *(Continued)*

(b) Reserves of the Company

	Note	Share premium HK$'000	Convertible bond reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009		94,457	3,256	141,783	(250,086)	(10,590)
Transfer		—	—	(141,783)	141,783	—
Loss for the year		—	—	—	(830)	(830)
At 31 December 2009 and 1 January 2010		94,457	3,256	—	(109,133)	(11,420)
Issue of shares pursuant to an open offer		268,628	—	—	—	268,628
Share premium reduction		(230,406)	—	121,273	109,133	—
Issue of shares on conversion of convertible bond	31	51,589	(3,256)	—	—	48,333
Issue of shares pursuant to a subscription agreement		84,360	—	—	—	84,360
Loss for the year		—	—	—	(41,235)	(41,235)
At 31 December 2010		268,628	—	121,273	(41,235)	348,666

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

Loss attributable to shareholders of the Company approximately HK$41,235,000 (2009: loss of HK$830,000) has been dealt with in the consolidated financial statements of the Company.

45. EVENTS AFTER THE REPORTING PERIOD

(a) As disclosed in Note 20(c) above, on 27 December 2010, Wuhan Grand has entered into an agreement with Wuhan Donghu to acquire 6.4% of equity interest in Wuhan Grand Hoyo with an aggregate consideration of RMB5,420,000 (equivalent to approximately HK$6,376,000).

(b) As disclosed in Note 35 above, the Group has to surrender the PRC Property to the Land Reserve Centre in accordance with the Agreement. In January 2011, the official ownership documents related to lands and buildings have been surrendered by Wuhan Grand.

RESULTS

	Year ended 31 December				
	2010	2009 (Restated)	2008 (Restated)	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,054,754**	545,435	269,882	49,045	42,408
Profit (loss) before tax	**158,166**	48,786	(19,277)	(56,090)	(12,186)
Income tax	**(3,889)**	(6,873)	4	2,205	245
Profit (loss) for the year	**154,277**	41,913	(19,273)	(53,885)	(11,941)

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2009 (Restated)	2008 (Restated)	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,687,086**	617,332	572,034	198,699	219,876
Total liabilities	**(840,237)**	(481,636)	(481,469)	(240,542)	(207,956)
Net assets (liabilities)	**846,849**	135,696	90,565	(41,843)	11,920