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

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

Annual Report
2010/2011

THE MISSION

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-Executive Directors
Mr. Wee Ee Lim
(Ms. Lim Seok Bin Zann as his alternative)
Mr. Tarn Sien Hao

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

Bank of China
Guiyang Branch, Jiaxiu Sub-branch

LEGAL ADVISERS AS TO HONG KONG LAWS

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

AUDITORS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

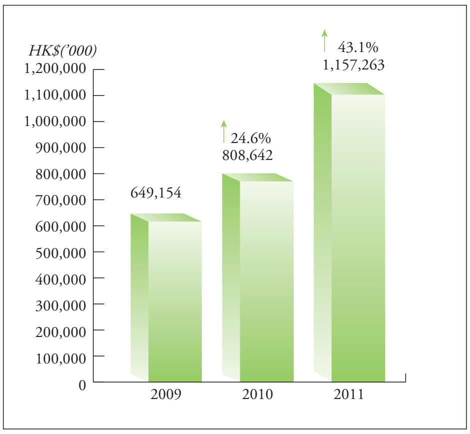
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

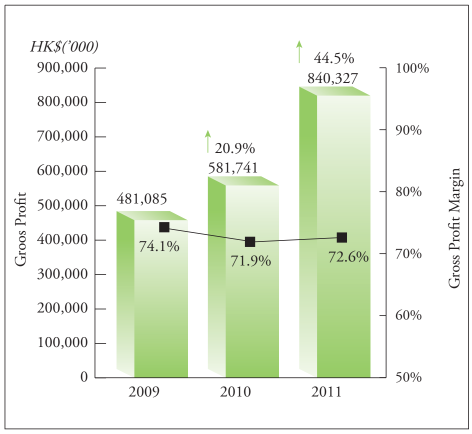
KEY FINANCIALS

	2011 *HK$'000*	2010 *HK$'000*	% Change
Turnover	**1,157,263**	808,642	↑ 43.1%
• Traditional Chinese medicines (including mainly gynecological medicine)	**836,792**	590,868	↑ 41.6%
• Bio-pharmaceutical products and bio-technology	**320,471**	217,774	↑ 47.2%
Profit attributable to owners of the Company	**441,838**	265,300	↑ 66.5%
Earnings per shares (in Hong Kong cents)			
Basic	**22.83**	15.68	↑ 45.6%
Diluted	**22.37**	15.35	↑ 45.7%
Gearing ratio (%)	**1.0**	2.1	↓ 1.1%
Net Cash	**1,424,250**	1,351,010	↑ 5.4%

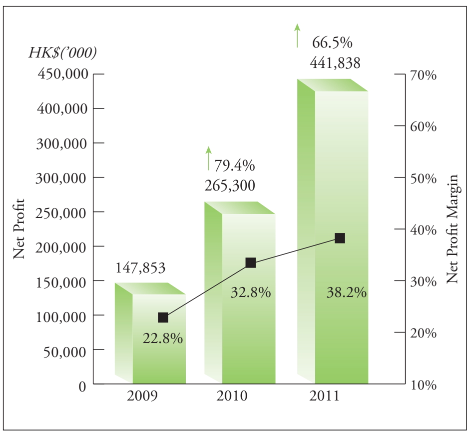
TURNOVER



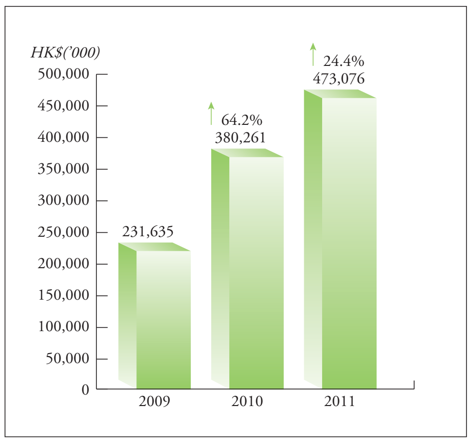
GROSS PROFIT



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

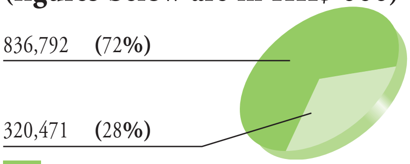


EBITDA

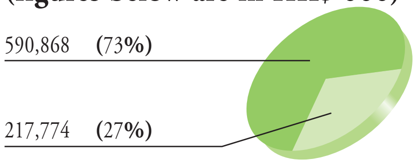


TURNOVER

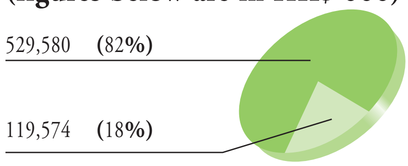
2011
(figures below are in HK$'000)



2010
(figures below are in HK$'000)



2009
(figures below are in HK$'000)



Traditional Chinese medicines (including mainly gynecological medicine)

Bio-pharmaceutical products and bio-technology

CHAIRMAN'S STATEMENT

On behalf of the board of directors ("**Board**") of Hua Han Bio-Pharmaceutical Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual results of the Group for the year ended 30 June 2011 ("**Year**").

BUSINESS REVIEW

During the Year under review, the results of the Group continued to report a satisfactory growth. Turnover for the Year amounted to approximately HK$1,157.3 million, representing a growth of 43.1% over the HK$808.6 million last financial year. Profit attributable to owners of the Company amounted to approximately HK$441.8 million. Such growth was mainly attributable to the rapid increase in the sales of the Group's owned intellectual property rights drugs categories listed in the National Medical Insurance Catalogue and the National Essential Drugs Catalogue. It was also due to the further integration and application of enterprise resources under the Group and the sustained enhancement in operational efficiency. Gains on investments were also increased as a result of the listing and the rapid development of the business of Magic Holdings International Limited ("**Magic (美即)**").

Guizhou Hanfang Medicine Manufacture Co. Ltd.

Guiyang De Chang Xiang Pharmaceutical Company Limited

GOAL AND STRATEGY

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

Our overall strategy is to: consolidate the channel and internal resources system, adapt to the industry and market changes brought by the "**new medical reform**"; perfect the business model that will drive the overall growth of prescription drugs with exclusive National Medical Insurance Catalogue products being the core products, so as to establish the opportunity to become a national brand to accelerate the growth of Over-The-Counter ("**OTC**") products; speed up the research and development of bio-albumin new products that have separate intellectual property rights to form the Group's on-going competitiveness based on innovative drugs; continue to structure the management system that can reflect positively the market value of the Group, so as to enhance and protect shareholders' interests.

Prescription Drugs

Yeosure Series

Anti-tumour Medicines

PROSPECTS

Looking forward, under those factors like the continuous buoyant economic growth in the PRC, increasing input of resources into medical care by the State, expedition in urbanization process, aging population and greater awareness in health and medication, domestic pharmaceutical demand will maintain its growing trend. The PRC pharmaceutical market has already entered into its "**Golden Decade**" development stage.

OTC Drugs

Fuke Zaizaowan & Fuke Zaizao capsules

In the new financial year, the Group will strive to:–

1. continue the establishment of industry chain of biological albumin and cord blood in the aspect of technology, product and leading market position, and while grasping the industry base further, accelerate the pace of introducing the already matured technology and products like "**Human Nerve Growing Factor Injection（人神經生長因子注射劑）**", "**Lyophilized Preparation for Small Bio-Pepetides（小分子肽凍幹劑）**" and "**Placenta Blood Albumin Injection（人胎盤血白蛋白注射劑）**" into the market, and maneuver all market resources to ensure meeting the sales forecast, thereby becoming an important revenue source of the Group.

2. fully leverage on national conditions and policies and our strengths to develop freely and fortify the Chinese medicine industry. On one hand, we will continue the "One Location, One Policy" and "One Hospital, One Policy" to perfect the prescription drugs sales model of putting our other exclusive National Medical Insurance Catalogue products in hospitals for sale. On the other hand, through the integration of the more professional planning and operating teams to accelerate the brand building and market penetration of OTC products, aiming at speeding up the enhancement of market influence and sales scale.

3. increase our efforts in operating resources integration, and protect the continuous enhancement of operational efficiency. Firstly, we will maintain the good relationship with existing co-operative partners, progress our co-operative plans steadily and strive to deliver returns as early as possible. Secondly, continue to explore and discover the advantages resources in any aspect or specific field, or invest in mergers and acquisitions, or capital participation, in order to complement our strengths and weaknesses. Thirdly, perform integration of the entire industry chain in which we are capable of, so as to reduce costs and improve profitability.

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

Bio-pharmaceutical products

"Yi Fu" and "Yi Bei"

CHAIRMAN'S STATEMENT

APPRECIATION

<u>*Exclusive products registered in "National Essential Drugs Catalogue for Medical Insurance (2009 New Edition)"*</u>

"Qijiao Shengbai capsules" and "Zhisou Huatan pills"

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

Zhang Peter Y.
Chairman

Hong Kong
30 September 2011

MANAGEMENT DISCUSSION AND ANALYSIS

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

MARKET REVIEW

During the Year, the PRC pharmaceutical industry continued to maintain a high growth. Three major factors had driven the growth of pharmaceutical consumption. Firstly, the proportion of aging population is expanding. According to the population statistics, up to the year of 2010, the old people population was 177 million, representing 13.26% of the total population. At present, the drugs utilisation of old people represents one half of total drugs utilisation. By 2020, the old people population will reach 248 million. The accelerating increase in aging implies the foundation group of high drugs utilisation is expanding rapidly. Secondly, increase in income is facilitating the increase in medical expenses. It embodies that the per capita drugs utilisation has a significant growth trend, of which the per capita drugs utilisation in old people is substantially higher than that of young people. Thirdly, the policy effect begins to come into view with new medical reform policies stimulating the drugs consumption demand: the establishment of the rural co-operative medical care system with the government contributing capital has increased the reimbursement proportion of medical expenses in rural population, which leads to more rural people having access to medical treatment. At the same time, the medical consumption demand of low-income urban residents is beginning to show good performance because of medical insurance coverage. Since total expenditure of both medical and healthcare represent less than 5% of GDP, there is still a huge gap when compared with developed countries. Therefore, the PRC pharmaceutical industry development continues to maintain its rapid growth. According to the forecast of some authoritative experts, in the next decade, the compound annual growth rate of the PRC pharmaceutical market will reach 20%, and is entering into a "Golden Decade" development period. During this financial year, the PRC pharmaceutical industry has three distinct features, the trend of mergers and reorganizations by state-owned enterprisers as dominators; innovation in products and technologies becomes a development direction in pharmaceutical enterprisers; and the orientation impact of national policies is escalating significantly.

The relevant ministries of the State Council that are responsible for the pharmaceutical industry had jointly issued the "**Guiding Opinions on Accelerating the Structural Adjustment in the Pharmaceutical Industry (《關於加快醫藥行業結構調整的指導意見》)**" (as referred thereafter as "**Guiding Opinion**") on 9 October 2010. It encourages advantageous enterprises in the industry to enter into trans-regional and trans-ownership mergers and acquisitions as well as joint reorganizations, and promotes the centralization of resources like product categories, technology and channel towards advantageous enterprises. By supporting the advantageous and strong enterprises and survival of the fittest in market competition, it improved significantly the economies of scale of enterprises and industry concentration level with sales revenue of the Top 100 Enterprises in pharmaceutical industry representing over 50% of the industry's sales revenue. Under the direction of this policy, the representing state-owned enterprises (including China National Medicines Corporation Limited ("**National Medicines**"), Shanghai Pharmaceuticals Holding Co., Ltd and China Resources Medicines Group Limited ("**China Resources**") underwent vigorous reforms and restructuring activities, such as National Medicines reorganizing the China National Biotec Group (which became the largest bio-pharmaceutical and technological enterprise in China after reorganization), and merging with Shanghai Institution of Pharmaceutical Industry to establish or hold equity interest in large scale mobilizing enterprises at different provincial levels and key markets. After acquiring Sanjiu Medical & Pharmaceutical Co., Ltd. ("**Sanjiu**") and Donggeejiao ("**東阿阿膠**"), China Resources also held the 100% equity interest of Beijing Pharmaceutical Group Co., Ltd. ("**Beijing Pharmaceutical Group**"). Such move has enhanced the industry concentration level of PRC pharmaceutical industry.

In the Guiding Opinion, the State expressed clearly its efforts in the research and development of genetic engineering drugs and antibody drugs in protecting and curing diseases including malignant tumor and cardiovascular and cerebrovascular diseases, and its intention to put more efforts in the research and development of new-type vaccine for preventing contagious disease. From the biotechnological pharmaceutical aspect, with technologies focusing on breakthrough in large scale, high-flux genetic clone and protein expression, humanized antibody and preparation of human antibodies, new-type vaccine adjuvant, mass cell cultivation and protein purification are the major directions for pharmaceutical and technology research and development. Policy, capital and market support will be provided to research and development institutions by the Chinese government. As innovation drugs will make enterprises avoid vicious competition of generic drugs with some advantages in product-pricing, market competition, and profitability, new drugs research and development will make some pharmaceutical enterprises with scale and strength scramble for the market. During the Year, "new medical reform" in China continued to be implemented comprehensively, with policies launching more frequently than in the past. The National Essential Drugs system was spreading widely with drug standards improving further. The adjustments of pharmaceutical industry structure were driving deeply in all directions, drugs procurement by tender was intensifying, general medicines pricing was decreasing further and public hospitals were reforming orderly. The fluctuation of pharmaceutical industry policies has experienced unprecedented momentum. Judging from the above, with the arrival of the great era of PRC pharmaceutical market, those enterprises with strong development prospects, tier-strategies in keeping up with market development, unique product series and advanced technologies, strong and established nationwide end-user sales marketing network and excellent implementation capacity will eventually excel others in the market and become a conglomerate pharmaceutical enterprise based in PRC, growing stronger and stronger and heading towards international competition.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, against the backdrop of the gradual implementation of domestic "new medical reform" policies and intensification of pharmaceutical market competition, the Group had adopted proactive measures to sustain a continuous and rapid growth for the Group's results. During the Year, the Group continued to focus on the critical areas of its designated development strategy, and explored and established a new sales model, combining the exclusive National Medical Insurance Catalogue products driving prescription drugs and the exclusive branded product categories driving OTC drugs, to vigorously develop bio-pharmaceutical medicines and technologies while keeping the steady growth of traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, and new structure to support the Group's future development has been established. Meanwhile, the Group's ability to estimate expenditure scientifically, to enforce stringent control in procurement and production costs, and to improve its operational management service standards, helped achieving the rapid expansion of business scale and great growth of sales revenue and profits, and had established a solid foundation for the Company in sustaining a healthy and rapid development position.

FINANCIAL PERFORMANCE

During the Year, the Group's turnover was approximately HK$1,157.3 million, representing an increase of approximately 43.11% as compared to the last financial year. Of which approximately HK$836.8 million (representing 72.34% of the Group's total turnover) was derived from the traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing an increase of approximately 41.61% as compared to the last financial year. During the Year, sales in bio-pharmaceutical products was approximately HK$320.5 million, (representing 27.66% of the Group's total turnover), representing an increase of approximately 47.21% as compared to the last financial year.

During the Year, the Group recorded a profit attributable to the owners of the Company of HK$441.8 million, representing an increase of approximately 66.54% as compared to the last financial year.

During the Year, the directors of the Company conducted a review of the Group's intangible assets and determined that the technical knowhow to produce biochips were impaired, due to that demand of the biochips was less than expected. Accordingly, impairment losses of approximately HK$58,702,000 has been recognised in the consolidated income statement in respect of the technical knowhow for the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET PERFORMANCE

For prescription drugs, our core products include four exclusive products in National Medical Insurance Catalogue, namely "**Qijiao Shengbai Capsules（芪膠升白膠囊）**", "**Zhisou Huatan Pills（止嗽化痰丸）**", "**Yi Fu（易孚）**" and "**Yi Bei（易貝）**". The Group made elaborate design for marketing improvement solutions (including profit allocation mechanism), redeployed various aspects like tender, procurement, delivery, hospital and doctors, and thereby forming a growth pattern of sales volume of the exclusive products in National Medical Insurance Catalogue that had increased rapidly and thus drove up the sales of other types of products. This pattern has provided a practical security for the growth of the Group. At the same time, it increased the Group's co-operative efforts with its distributors and hospitals, and obviously helped the Group's improvement in marketing efficiency and recoverability of trade receivables. Of which, "**Qijiao Shengbai Capsules（芪膠升白膠囊）**" had been participated in the tender procedures in 21 provincial markets, and all of them succeeded the biddings in the Group's unified pricing. The products were newly launched into 1,784 hospitals as compared to 520 hospitals last year. "**Yi Fu（易孚）**" and "**Yi Bei（易貝）**" were newly launched into 416 hospitals as compared to more than 2,000 hospitals last year. For OTC drugs, our core products include "**Fuke Zaizaowan（婦科再造丸）**" (including capsules). By excavating the unique functions and curative effects of the product, the Group made brand-oriented promotion campaigns to enter into nine provincial markets in Northern China, North-eastern China under the Group's continuing expansion in the market share of its existing South-western China, Central and Southern China, and Southern China markets. The Group has formed important co-operative partnerships with local renowned chain drugstores, such as Dongbei Drugstores（東北大藥房）, Chengda Fangyuan Drugstores（成大方圓大藥房）and Beixingyuan Drugstores（百姓緣大藥房）, which had been newly launched into 3,400 retail drugstores. During the Year, "**Fuke Zaizaowan（婦科再造丸）**" was among the top four, in terms of sales volume, of the domestic gynecological recuperating products.

RESEARCH AND DEVELOPMENT

During the Year, the Group continued to conduct research and development activities entwining basic materials like human placenta and cord blood, with the purpose of establishing itself as an international leading, complete and high-end product and technology chain within this industry. The Group has basically established the strategies of "targeting at frontier, multi-party co-operation, rapid transformation, cost controlling, risk reduction, and work selectively". The Group's "**Guizhou Province Stem Cell and Tissue Engineering Technology Research Centre （貴州省幹細胞與組織工程技術研究中心）**" was put into operation and participated in the research of "**Mesenchymal Stem Cell Project（間充質幹細胞項目）**" of Guizhou Province. It has filed with the Ministry of Science and Technology（國家科技部）for the approval of "**Key Special Project Research of Bio-proteomics and Molecular Markers（生物蛋白質組學和分子標記物的重大專項研究）**" co-operated by the Group with the scientists in bio-proteomics from Chinese Academy of Science（中國科學院）and Beijing Normal University（北京師範大學）. "**Special Project Research of Small Bio-Peptides（生物小分子肽研究專項）**" had been approved by the Science and Technology Bureau of Guizhou Province（貴州省科技廳）. The Group, from an industrialization perspective, directly builds up the relationship, communication and co-operation with the scientists, in the capacity as an investor, to establish jointly the research directions and objective and fully participated in research and development works. Hence the Group adopted a new research and development model that will play a significant role in forming the product and technology chain and controlling the costs and risks of the Group as compared with the traditional model that was completely relying on the research institutions or solely paying for obtaining drug approvals.

PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

For the production facilities construction, Guizhou Factorr's project of "**Human Nerve Growing Factor Injection(人神經生長因子注射劑)**" had completed all the works prior to Good Manufacturing Practice (GMP) certification by the State, and is pending for the formal report of National Institutes for Food and Drug(中檢所). For the "**Placenta Blood Albumin(人胎盤血白蛋白)**" project and "**Public Cord Blood Library(臍帶血公共庫)**" project (under the co-operation with Shenzhen Beike Bio-technology Company(深圳北科生物公司)), construction had commenced and is expected to be completed in 2012. The office and inspection building of the Group is expected to put into use by the end of this year. In order to support the development of the Group, Guiyang High and New Technology Zone (貴陽高新區)intends to grant a parcel of land with an area of approximately 500 mu to the Group in the industrial zone with extremely preferential policies. The procedures are now in progress.

For cost control, the Group will excavate the potential, pay more attention and strive to control the escalating cost of production. In the Year, as affected by domestic economy, the prices of Chinese medicine materials, coal, labor and logistics had increased substantially. The measures adopted by the Group include: annual bulk purchase of Chinese medicine materials in which total purchase volume and unit price will be determined on a one-off basis, and for important purchasing contracts, the Group will implement a payment-in-advance system. Bulk goods purchasing will be made by tender. In budget management, human resources costs of different departments and subsidiaries will be authorized for approval and key areas will be reviewed. The vehicle management system will be further improved with budgeting for single vehicle costs. These measures had effectively decreased the Group's pressure as a result of rising costs.

INVESTMENT AND CO-OPERATION

Magic Holdings International Limited ("**Magic**") is an investing enterprise of the Group. Magic was listed successfully in September 2010, which was one of several best performing IPOs in Hong Kong's capital market in 2010. The market share of the "**Magic(美即)**" series products is continuing to expand and has all along been maintaining its leading position well in the PRC facial masks market over the years. During the Year, its results continued to grow rapidly, and its brand awareness and reputation had been further enhanced. The Group's investment in beauty products business had generated enormous returns.

The Group had entered into a strategic co-operative agreement with Shenzhen Beike Bio-technology Company Ltd.(深圳市北科生物科技有限公司)in May 2011. Both parties will invest RMB300 million in the construction of "**Guizhou Province Stem Cell Regeneration Medicine Industrialization Base (貴州省幹細胞再生醫學產業化基地)**" project in Guiyang, of which its specific contents include the construction of Guizhou Province Key Laboratory of Stem Cell Research(貴州省幹細胞重點研究實驗室), Guizhou Province Stem Cell Library(貴州省幹細胞庫), Guizhou Province Regeneration Medicine Centre(貴州省再生醫學中心)and Anti-aging Stem Cell Healthcare Base(幹細胞抗衰老康健基地). Currently, it has entered into its construction planning stage.

The Group entered into a co-operative agreement at the end of 2010 with National Vaccine & Serum Institute(北京生物製品所)to carry out in-depth co-operation on human placenta series drugs.

The Group entered into a strategic co-operative agreement with Guangzhou Ogilvy Advertising Company Limited (廣州奧美廣告有限公司) in 2011. Ogilvy will be fully responsible for the marketing planning, marketing proposal design and advertising production of the Group's OTC products.

PROSPECTS

The relevant data shows that the PRC has become the world's fifth largest drugs market in 2010, and will surpasses Japan to become the world's second largest drugs market in 2018. Therefore, our continuing goal is to become a highly competitive pharmaceutical group in sharing the achievements of high-speed growth of the pharmaceutical market in PRC, become the enterprise with unique innovative products and technology in PRC pharmaceutical market and possess the comprehensive marketing network with abundant operation resources.

The Directors consider that, under the guidance of three-year leaping-forward development plan, the Group will continue to promote the overall development strategies that have already been set. These strategies are to consolidate the channel and internal resources system, adapt to the industry and market changes brought by the "new medical reform", perfect the business model that will drive the overall growth of prescription drugs under the exclusive products in National Medical Insurance Catalogue being the core products, so as to establish the opportunity of being a national brand and accelerate the growth of OTC products; speed up the research and development of bio-albumin new products that have independent intellectual property rights to form the Group's on-going competitiveness based on innovative drugs; continue to structure the management system that can reflect positively the market value of the Group, so as to enhance and protect shareholders' interests.

The specific missions are to:–

1. take marketing as the lead to further improve our market share. Prescription drugs marketing: the demand and competitive situation in different markets need to be integrated. While having "**Yi Fu (易孚)**", "**Yi Bei (易貝)**", "**Qijiao Shengbai Capsules (芪膠升白膠囊)**" and "**Zhisou Huatan Pills (止嗽化痰丸)**" as principal products, there is also the need to choose carefully other promotional categories and product portfolio for further sales and prepare well for having the principal products leading the development of other products. Increase our works with doctors to make those products the principal prescription in more medical diagnosis. Meanwhile, we need to overcome the difficulties in adverse conditions and inconvenient management to continue promoting the "Village Plan"(鄉村計劃). Through the penetration of sub-county market and community hospitals, enhance the sales efforts of product categories under the "**National Essential Drugs Catalogue (《國家基本藥物目錄》)**". OTC drugs marketing: by establishing the opportunity of "**Fuke Zaizaowan (婦科再造丸) (Capsules)**" to be the number one brand of curing cold disease for Chinese females, and while stepping its foothold onto the nationwide and important regions of the drugs chain store mechanism, we will follow up by investing in advertising and floor-to-floor promotion to increase single shop sales. The "**Human Nerve Growing Factor Injection (人神經生長因子注射劑)**" has taken the advantage of sales for about half a year and by leveraging on the strengths of its State Category One New Medicine status and the already established market base, we will accelerate its introduction into hospitals and will adopt the methodology of numerous clinical centres and massive samples selling method to enable increase in sales volume of such product;

2. construct a complete and structural pharmaceutical production base by using human placenta and cord blood as substance materials. Apart from ensuring the "**Human Nerve Growing Factor Injection (人神經生長因子注射劑)**" to be introduced into the market in the fiscal year 2012, the "**Placenta Blood Albumin (人胎盤血白蛋白)**" project and "**Stem Cell Bank (幹細胞庫)**" projects are expected to be completed and put into operation in 2012. The procedures of the new industrial park land site will be completed and government approval of factory design and planning will be obtained;

3. increase our efforts in research and development to ensure the Group's innovative drugs and other products will be introduced into the market mechanism one after another within the next one to five years. By leveraging on the existing platform, create new form of co-operation mechanism to have in-depth co-operation with the existing domestic and those Chinese high-end researchers in biological-albumin and stem cells aspects who are stationing in U.S. and Europe. Based on the Group's product chain plan and market demand, introduce innovative products into the market without interruption. At the same time, by grasping the research and development rhythm correctly, and introducing the risk control mechanism and respective positioning setup, the research and development risk can be avoided realistically. For products like "**Placenta Pills (人胎盤片)**", and "**Placenta Tissue Fluid Injection (人胎盤組織液注射劑)**", through the continuing and aggressive co-operation with National Vaccine & Service Institute (北生所), we will strive to achieve the drugs document transfer within this year. For drugs that are currently under research, they must adapt to the assessment standard enhancement of new drugs under the State and require scientists to perform concrete fundamental research and information preparation;

4. introduce concept and approach of market capitalization management based on the distinct characteristics of Hong Kong capital market. Apart from maintaining good communication with investors and raising the Group's transparency, through the re-engineering of the Group's strengths in strategy, product, competitiveness, growth, financial planning and costs, and human resources, the mechanism of the Group's value will be more complete and clear, and will induce the capital market to form an accurate evaluation of the Group, thereby resulting a stable increase of market value aligning with the Group's development;

5. seriously carry out the responsibilities of the largest single shareholder of Magic after its listing, seize the development strategy of Magic and its comprehensive internal governance mechanism to protect the operation of Magic in a regulated, orderly and highly efficient manner; and

6. increase our efforts in recruiting talents in high-level technology, production management, and marketing and sales based on the development needs of the Group's business. At the same time, we need to strengthen the training of our staff at work, especially long-serviced staff, improve their quality and provide them development opportunities. Furthermore, through the re-designing of incentive mechanism, make it more attractive and challenging and will arouse the enterprising passion of our staff. Through thinking thoroughly, summing up and refining, advocate and form a more efficient, advancing and accommodating enterprise morale.

MANAGEMENT DISCUSSION AND ANALYSIS

In general, 2011-2012 financial year is an important phase of our three-year leaping-forward development span. The Group will take proactive move, and strive for further development. At the same time, we will adopt a prudent approach in view of the real-life situation, protect ourselves against risks and strive to reward our shareholders with excellent business performance.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 30 June 2011, the Group had unpledged cash and bank balances of approximately HK$1,456.6 million (2010: approximately HK$1,406.5 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to owners of the Company was approximately 1.0% (2010: approximately 2.1%). Net current assets was approximately HK$2,179.2 million (2010: approximately HK$2,256.2 million) and the current ratio was maintained at the healthy level of approximately 10.0 (2010: approximately 9.0) as at 30 June 2011.

The finance costs of the Group for the Year amounted to approximately HK$2.5 million (2010: approximately HK$4.0 million), representing approximately 0.2% (2010: approximately 0.5%) of the Group's total turnover and a decrease of approximately HK$1.5 million over last year. The decrease in finance costs was principally due to decrease in bank loans.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any material contingent liabilities (2010: Nil).

BANK BORROWINGS

As at 30 June 2011, the Group had outstanding bank loans of approximately HK$32.3 million from the banks in the PRC (2010: approximately HK$55.5 million), which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi.

As at 30 June 2011, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain prepaid land lease payments and buildings of the Group; and (iii) corporate guarantees executed by certain subsidiaries of the Company.

SEASONAL OR CYCLICAL FACTORS

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

FOREIGN EXCHANGE EXPOSURE

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

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICIES

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

COMMITMENTS

As at 30 June 2011, the Group had contracted commitments of approximately HK$0.7 million (2010: approximately HK$140.5 million), approximately HK$84.1 million (2010: approximately HK$16.0 million) and Nil (2010: approximately HK$27.2 million) in respect of purchases of technical knowhow/ patent, construction of property, plant and equipment and acquisition of additional interest in a subsidiary, respectively.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2011, the continuing business of Group had a total of 1,130 employees (2010: 1,270), of whom 1,121 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Year, staff costs under continuing business of the Group (including Directors' remunerations) amounted to approximately HK$32,627,000 (2010: approximately HK$35,288,000). Staff costs under continuing business of the Group accounted for 2.8% of the Group's turnover (2010: 4.4%) during the Year. The Group participates in retirement benefit schemes for its staff both in Hong Kong and the PRC.

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

FINAL DIVIDEND AND BONUS ISSUE

The Directors recommended the payment of a final dividend of HK3.4 cents per share of the Company ("**Share**") for the Year (2010: HK3 cents) totalling approximately HK$67,127,000, and a bonus issue of shares on the basis of one new ordinary share for every five existing ordinary shares held to the shareholders of the Company whose shares are on the register of members on Wednesday, 28 December 2011, subject to the approval of the shareholders of the Company in the Company's forthcoming annual general meeting, and if passed, the final dividend and share certificate of the bonus issue share will be paid and posted respectively on Friday, 13 January 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Peter Y.（張岳）, aged 49, is the Chairman of the Company and one of the founders of the Group. Mr. Zhang graduated from Guiyang Teacher Training College（貴陽師範學院）in 1982 with a Bachelor Degree in Chemistry. Mr. Zhang has been appointed as a standing member of the Fifth Chinese People's Political Consultative Conference in Yunyan District of Guiyang City（貴陽市雲岩區第五屆政協常委）. In 1999, he was awarded a postgraduate certificate from the Nankai University（南開大學）majoring in enterprise management. Mr. Zhang was awarded the title of 1998-2002 Guiyang City Young and Middle-aged Technological Leader（貴陽市一九九八至二零零二年度中青年科技骨幹）in 2000. Given his expertise in the area of chemistry and his extensive knowledge in the pharmaceutical industry, Mr. Zhang is in charge of the Group's overall strategic planning. With more than 20 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's strategic management, financial planning and control. Mr. Zhang is a controlling Shareholder and a director of Bull's-Eye Limited, a controlling Shareholder of the Company.

Mr. Deng Jie（鄧杰）, aged 47, is the Chief Executive Officer and an executive Director of the Company, and one of the founders of the Group. Mr. Deng graduated from Peking University（北京大學）in 1985 with a Bachelor Degree in Law. Mr. Deng was given the award of Outstanding Young Entrepreneur of the State（全國優秀青年企業家）and Top Ten Outstanding Youths in Guizhou（貴州省十大傑出青年）in 1993 and 1994 respectively, and was appointed as a member of the Eighth and the Ninth Chinese People's Political Consultative Conference in Guizhou（貴州省第八屆及第九屆政協委員）since 1998. In 1999, he was awarded a postgraduate certificate from the Nankai University（南開大學）majoring in enterprise management. He has over 20 years of experience in corporate management, and is responsible for the Group's strategic management and operation management. Over the past 20 years or so, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team. Mr. Deng is a director of Bull's-Eye Limited, a controlling Shareholder of the Company.

Mr. Long Xian Feng（龍險峰）, aged 49, is the General Manager of the Group and an executive Director of the Company. Mr. Long graduated from Peking University（北京大學）in 1985 with a Bachelor Degree in Law. In 1999, he was awarded a postgraduate certificate from the Nankai University（南開大學）majoring in enterprise management. Mr. Long joined the Group in 1993 and is responsible for the Group's research and development of new products. Since joining the Group, Mr. Long has led the Group to successfully developing and introducing many pharmaceutical products. Mr. Long is responsible for the operations of the Group's businesses in the PRC.

Mr. Zhou Chong Ke（周崇科）, aged 50, is an executive Director of the Company. Mr. Zhou graduated from Guiyang Medical University（貴陽醫學院）in 1983 with a Bachelor Degree in Medicine. He also has a postgraduate degree certificate in Psychiatry from West China University of Medical Sciences（華西醫科大學精神醫學系）. He joined the Group in 2007 and is responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group. Prior to joining the Group, he has assumed senior positions in certain renowned pharmaceutical companies in PRC. With his excellent industry background, apart from primarily responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group currently, Mr. Zhou is also responsible to assist the Chief Executive Officer the operation of external merger and acquisition projects and maintains the close relationships among the Group and its strategic partners (including the research institutes).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Wee Ee Lim (黃一林), aged 50, a non-executive Director of the Company. Mr. Wee holds a Bachelor of Arts (Economics) Degree from Clark University. He is the President and Chief Executive Officer of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He also holds directorships of various public listed companies namely, United Industrial Corporation Limited, Singapore Land Limited, UOL Group Limited and Pan Pacific Hotels Group Limited. He joined the Group in 2005.

Mr. Tarn Sien Hao (譚顯浩), aged 44, a non-executive Director of the Company. Mr. Tarn holds a Bachelor of Science Degree from Columbia University, a Bachelor of Arts Degree from the State University of New York and a Master of Business Administration Degree from the University of Dubuque. He is the General Manager (Corporate Development and Property) of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He joined the Group in 2006.

Ms. Lim Seok Bin Zann (林舒敏), aged 34, was appointed as an alternate director to Mr. Wee Ee Lim in 2011. Ms. Lim holds a Master Degree in Business Administration from INSEAD and Tsinghua University. She is a member of the Institute of Certified Public Accountants of Singapore. Ms. Lim is the group financial controller and company secretary of Haw Par Corporation Limited, a public company the securities of which are listed on the Singapore Exchange Securities Trading Limited.

Independent Non-Executive Directors

Professor Kung Hsiang Fu (孔祥復), aged 69, is an independent non-executive Director of the Company. Professor Kung is an academician (院士) of the Chinese Academy of Sciences (中國科學院). He has over 38 years of experience in medical research. During 1986-1998, he was the Chief of the Laboratory of Biochemical Physiology National Cancer Institute of the National Institute of Health in U.S.A. for 12 years. He has published over 300 scientific articles and is the inventor of a number of U.S. patents. Professor Kung has served as the director & chair professor of the Institute of Molecular Biology of the University of Hong Kong (香港大學) for 7 years since 1998. Currently, he is a Professor of Virology of the Centre of Emerging Infectious Diseases of the Chinese University of Hong Kong (香港中文大學). He joined the Group in 2002.

Professor Tso Wung Wai (曹宏威), aged 70, is an independent non-executive Director of the Company. Professor Tso holds a Doctorate Degree in Biochemistry from the University of Wisconsin-Madison in U.S.A. After his honorable retirement from teaching at the department of biochemistry of the Chinese University of Hong Kong (香港中文大學) for 24 years, Professor Tso is currently an adjunct professor of the department. Professor Tso's research interests include immobilized cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong Government for his meritorious public and community services. He joined the Group in 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

***Mr. Hon Yiu Ming, Matthew*（*韓耀明*）**, aged 51, is an independent non-executive Director of the Company. Mr. Hon graduated from the University of East Asia, Macau（澳門東亞大學）with a Master Degree in Business Administration. He is a Certified Public Accountant (Practicing) in Hong Kong and is now the sole-proprietor of Y. M. Hon & Co., a Hong Kong Certified Public Accountants firm. Mr. Hon is the Chairman of the Remuneration Committee and the Audit Committee of the Company. He joined the Group in 2004.

Senior Management

***Mr. Wong Ming Chun*（*王名俊*）**, aged 30, is the Company Secretary of the Company and the Financial Controller of the Group, and is responsible for the Group's financial management and internal auditing. He is a member of The Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, a member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a CFA charterholder of the CFA Institute. Mr. Wong graduated from The Hong Kong University of Science and Technology（香港科技大學）with a Bachelor Degree in Business Administration (major in Accounting). Mr. Wong has over 8 years of experience in auditing, accounting and financial management. He joined the Group in 2008.

***Mr. Chen Lei*（*陳磊*）**, aged 40, is the assistant to General Manager of the Group. Mr. Chen graduated from Jiangxi University of Finance and Economics（江西財經大學）in 1997. He was awarded as the Senior Finance Manager by International Institute of Management（國際管理師協會）in 2005. He was obtained the Master of Business Administration Degree in Executive Management by Royal Roads University of Canada in 2009. He joined the Group in 2002 and is currently responsible for assisting the Group's General Manager in financial management of the operations in Mainland China. Mr. Chen is an executive director of Magic Holdings International Limited, a public company listed on the Main Board of the Stock Exchange.

***Mr. Yao Chang Fa*（*姚廠發*）**, aged 46, is the Chairman and the General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）. Mr. Yao graduated from Guiyang Chinese Medical College（貴陽中醫學院）in 1987. He acquired the professional qualification of principal Chinese medical practitioner in 1996, and graduated from Beijing University of Aeronautics and Astronautics（北京航空航天大學）in postgraduate studies in business administration in 2004. Mr. Yao joined the Group in 1992 and is responsible for the operation management functions for Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）.

***Mr. Zhang Jin Yi*（*張勁翼*）**, aged 49, is the General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）. Mr. Zhang graduated from Northwestern Polytechnical University（西北工業大學）in 1984 with a Bachelor Degree in Engineering and acquired the title of senior engineer. He joined the Group in 2004 and is responsible for the production management functions for Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）.

Mr. Zhang Kun Mou (張昆謀), aged 48, is the General Manager of Guizhou Factorr Bio-Technology Co., Ltd. (貴州泛特爾生物技術有限公司). Mr. Zhang graduated from Harbin Engineering University (哈爾濱工程大學) (formerly known as Harbin Vessel Engineering College (哈爾濱船舶工程學院)) and obtained a Bachelor Degree in Engineering in 1984. In 1989, he graduated from Shanghai Donghua University (上海東華大學) (formerly known as China Textile University (中國紡織大學)), with a Master Degree in Engineering and served as a senior engineer. Mr. Zhang joined the Group in 2000 and is responsible for managing the production facilities of Guizhou Factorr Bio-Technology Co., Ltd. (貴州泛特爾生物技術有限公司). Mr. Zhang is an executive director of Magic Holdings International Limited, a public company listed on the Main Board of the Stock Exchange.

Mr. Yang Hong Ming (楊洪銘), aged 47, is the Chairman of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司). Mr. Yang graduated from the Department of International Trade, University of International Business and Economics (對外經濟貿易大學) in 1985 with a Bachelor Degree in Economics. After graduation, Mr. Yang worked in the China Resources Group (中國華潤集團公司) and acquired the title of senior economist and was appointed as the standing committee member of the First and Second Chinese People's Political Consultative Conference in Guilin (桂林市第一、二屆政協常委). Mr. Yang joined the Group in 2008 and is responsible for the strategic planning management and external relations of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司).

Ms. Niu Yi (牛藝), aged 36, is the Chief Inspector of Human Resources Administration of the Group. She joined the Group in 1996 and is overall responsible for the Group's human resources, administration and corporate culture build up. Ms. Niu graduated from Guizhou Normal University (貴州師範大學) majoring in English with a Bachelor Degree in Literature in 1996, and obtained a Master Degree in Business Administration from Guizhou University (貴州大學) in 2007. She acquired the professional qualification of Human Resources Manager in 2005, and was awarded the Global Career Development Facilitator (GCDF) Certification by the Consulting and Education Certification Center of the USA (美國諮詢與教育認證中心) in 2009. Ms. Niu has solid theoretical foundation and extensive experience in human resources administration.

Mr. Luo Zhan Biao (羅戰彪), aged 33, is the Deputy General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Luo graduated from Guiyang Chinese Medical College (貴陽中醫學院) majoring in Chinese Medicine with Bachelor Degree in Science in 2000, and was qualified as Engineer in 2011. Mr. Luo joined in the Group in 2000, and is mainly responsible for assisting the General Manager in business operation.

Mr. Zou Bang Yin (鄒邦銀), aged 36, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司), being in charge of technological service, product development and quality control functions of the company. Mr. Zou graduated from Beijing Institute of Technology (北京理工大學) majoring Biochemical Engineering in 1999, and obtained a Master Degree in Medicine from Guiyang Medical College (貴陽醫學院) with a qualification certificate of national licensed pharmacist in 2002. He joined the Group in 1999.

Mr. Zhang Shou Xue (張壽學), aged 42, is the Factory Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). He graduated from Guiyang Chinese Medical College (貴陽中醫學院) in 1989. Mr. Zhang acquired the qualifications of chief pharmacist and licensed pharmacist, and has extensive experience in medicine production and management with comprehensive capabilities of total quality management. He was honored as the advanced individual on technological renovation (技術改造先進個人) of Guiyang City in 2009. Mr. Zhang joined in the Group in 2001, and is responsible for assisting the General Manager in production management of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Dai Li Gui (戴禮貴), aged 42, is the Chief Inspector of Marketing function of Guizhou Factorr Bio-Technology Co., Ltd. (貴州泛特爾生物技術有限公司) and is responsible for the marketing functions of biological medicine. Mr. Dai graduated from Department of Medicine, Guiyang Medical College (貴陽醫學院) in 1992 with a Bachelor Degree in Medicine. In 2002, he attended a part-time Master Degree course in regard to Oncology and doctor's degree courses in regard to Oncology and Medical Consultation at the Western China University of Medical Science (華西醫科大學). He is currently studying a doctorate degree course. Before joining the Group in 2000, Mr. Dai served the Pulmonary Hospital (肺科醫院) of Guiyang City as a clinician for 8 years.

Mr. Zhang Ming Jiang (張明江), aged 47, is the Chief Engineer of Guizhou Factorr Bio-Technology Co., Ltd. (貴州泛特爾生物技術有限公司). Mr. Zhang graduated from Department of Pharmacy, West China University of Medical Science (華西醫科大學) in 1986 and obtained a Bachelor Degree in Medicine. He joined the Group in 2007 and is responsible for the product research and development of drugs and GMP implementation works of Guizhou Factorr Bio-Technology Co., Ltd (貴州泛特爾生物技術有限公司).

Mr. Wei Zhong Ming (韋忠銘), aged 43, is the Vice General Manager of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司). Mr. Wei graduated from Department of Chemistry, Nankai University (南開大學) in 1990 with a Bachelor Degree in Chemistry. After graduation, Mr. Wei worked in Guilin No. 3 Pharmaceutical Factory (桂林市第三製藥廠), Guilin Medical University (桂林市醫學院) and Beijing Pilot Test Base of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司北京中試基地). He is one of the major researchers and testers for the two State category one new medicines (國家一類新藥) of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司). Mr. Wei joined the Group in 2008 and is responsible for the production technology and quality control of Guilin Pavay Gene Pharmaceutical Co., Ltd. (桂林華諾威基因藥業有限公司).

REPORT OF THE DIRECTORS

The directors ("**Directors**") of the Company are pleased to present their report and the audited financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the Year and the state of affairs of the Company and of the Group at 30 June 2011 are set out in the financial statements on pages 41 to 135 of the annual report.

The Directors recommend the payment of a final dividend of HK3.4 cents per ordinary share of HK$0.10 each in the share capital of the Company ("**Share**") in respect of the Year, to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on Wednesday, 28 December 2011. The proposed dividend will be paid on or about Friday, 13 January 2012 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting ("**Annual General Meeting**") of the Company to be held on Friday, 16 December 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the statement of financial position.

The Directors also recommended a bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares held to the Shareholders whose names appear on the register of members on Wednesday, 28 December 2011, subject to the approval of the Shareholders in the Annual General Meeting. For further details of the bonus issue, please refer to the circular despatched to the Shareholders together with this report.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company ("**Annual General Meeting**") is scheduled on Friday, 16 December 2011. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 13 December 2011 to Friday, 16 December 2011, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 December 2011.

The proposed final dividend and the bonus issue of Shares are subject to the passing of an ordinary resolutions by the Shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend and the bonus issue of Shares is Wednesday, 28 December 2011. For determining the entitlement to the proposed final dividend and the bonus issue of Shares, the register of members of the Company will be closed from Thursday, 22 December 2011 to Wednesday, 28 December 2011, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the bonus issue of Shares, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, for registration not later than 4:30 p.m. on Wednesday, 21 December 2011. The payment of final dividend and the share certificates for the bonus Shares will be made and despatched on Friday, 13 January 2012.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Company's published audited financial statements prepared on the basis set out therein, is set out on page 136 of this report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 30 June 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$1,225,672,000 of which approximately HK$67,127,000 has been proposed as a final dividend for the Year. The amount of approximately HK$1,233,043,000 (note 41(b)) standing to the credit of the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Zhou Chong Ke

Non-executive Directors:

Mr. Wee Ee Lim *(Ms. Lim Seok Bin Zann as his alternate)*
Mr. Tarn Sien Hao

Independent non-executive Directors:

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

In accordance with the article 108(A) of the Company's articles of association, Mr. Long Xian Feng, Mr. Wee Ee Lim and Mr. Tarn Sien Hao will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Long Xian Feng, Mr. Wee Ee Lim and Mr. Tarn Sien Hao being eligible, offers himself for re-election as Director at the forthcoming Annual General Meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 16 to 20 of this report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those disclosed in note 48 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 30 June 2011, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest *(Note 1)*	Approximate percentage of interest
Mr. Zhang Peter Y.	The Company	Interest of controlled corporation	546,559,408 Shares (L) *(Note 2a)*	27.68%
	The Company	Beneficial owner	1,560,000 Shares (L) *(Note 2b)*	0.08%
Mr. Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("**GHXM**")	Interest of controlled corporation	5% (L) *(Note 3)*	5%
	The Company	Beneficial owner	1,560,000 Shares (L) *(Note 2b)*	0.08%
Mr. Long Xian Feng	The Company	Beneficial owner	15,600,000 Shares (L) *(Note 2b)*	0.79%

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest *(Note 1)*	Approximate percentage of interest
Mr. Zhou Chong Ke	The Company	Beneficial owner	12,000,000 Shares (L) *(Note 2b)*	0.61%
Professor Kung Hsiang Fu	The Company	Beneficial owner	1,185,600 Shares (L)	0.06%
Mr. Hon Yiu Ming, Matthew	The Company	Beneficial owner	120,000 Shares (L)	0.01%

Notes:

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

2a. These 546,559,408 Shares were held by Bull's-Eye Limited ("**BEL**"), more than one-third of the issued share capital of which was beneficially owned by Mr. Zhang Peter Y.. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Zhang Peter Y. was deemed to be interested in all the Shares held by BEL.

2b. These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company. These options, all of which remained exercisable as at 30 June 2011, are exercisable at the subscription price of HK$0.8167 per Share at any time during a period of two years commencing from and including 17 August 2009 to 16 August 2011.

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

Save as disclosed above, as at 30 June 2011, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

Eligible participants of the Scheme include the following:

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

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

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

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

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

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

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

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

As at the date of this report, the total number of Shares of the Company available for issue under the Scheme and any other share option scheme of the Group is 160,234,160, representing approximately 7.98% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 17 December 2010, being the date of the 2010 Annual General Meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

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

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

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

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

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

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

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

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

The share options exercised during the Year resulted in the issue of 51,520,000 ordinary Shares.

At the date of this report, the Company had 95,000,000 share options outstanding under the Scheme, which represented approximately 4.73% of the Company's Shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 95,000,000 additional ordinary Shares.

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

Name or Category of participants	Number of share options: At 1 July 2010	Granted during the Year	Exercised during the Year	Cancelled or lapsed during the Year	Adjustment made during the Year *(Note (a))*	At 30 June 2011	Date of grant of share options	Exercise period of share options	Exercise price of share options *(Note (b))* *HK$*	Price of the Share at the date immediately proceeding the date of grant of options *(Note (c))* *HK$*
Directors										
Executive										
Mr. Zhang Peter Y.	1,300,000	–	–	–	260,000	1,560,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
Mr. Deng Jie	1,300,000	–	–	–	260,000	1,560,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
Mr. Long Xian Feng	13,000,000	–	–	–	2,600,000	15,600,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
Mr. Zhou Chong Ke	10,000,000	–	–	–	2,000,000	12,000,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
Mr. Bian Shu Guang *(Note (d))*	1,300,000	–	–	–	260,000	1,560,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
	26,900,000	–	–	–	5,380,000	32,280,000				
Other employees *(Note (e))*	44,600,000	–	(51,520,000)	–	8,920,000	2,000,000	17 August 2009	17 August 2009 to 16 August 2011	0.8167	0.83
	71,500,000	–	(51,520,000)	–	14,300,000	34,280,000				

Notes:

(a) *In accordance with the Scheme, the exercise price of the share options was adjusted from HK$0.98 per share to HK$0.8167 per share, and the total number of Shares to be issued upon exercise of the outstanding share options was also adjusted correspondingly on 7 January 2011, as a result of the bonus issue of Shares by the Company in January 2011. Such adjustment took retroactive effect from 20 December 2010, being the day immediately following the record date.*

(b) *Pursuant to the Scheme, the exercise price of the share option of HK$0.8167 per Share is adjusted from HK$0.98 per share due to the bonus issue of Shares as explained in note (a) above, subject to further adjustment in the case of capitalisation of profits or reserves, rights issue, consolidation, sub-division, reduction of the Company's share capital, or other similar changes in the Company's share capital.*

(c) *The price of the Shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date immediately preceding the date of the grant of the options (being adjusted from HK$1.00 per Share to HK$0.83 per Share due to the bonus issue of Shares as explained in note (a) above).*

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

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

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

After having made reasonable enquiry, the Directors are aware that as at 30 June 2011, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	**Number of Shares** *(Note 1)*	**Nature of interest**	**Approximate percentage of interest**
BEL *(Note 2)*	546,559,408 (L)	Beneficial owner	27.68%
Liu Yu *(Note 3)*	548,119,408 (L)	Interest of spouse	27.76%
Haw Par Pharmaceutical Holdings Pte. Ltd	333,478,320 (L)	Beneficial owner	16.89%
Haw Par Corporation Limited *(Note 4)*	333,478,320 (L)	Interest of controlled corporation	16.89%
Atlantis Investment Management (Hong Kong) Ltd.	223,400,000 (L)	Investment manager	11.32%

Name of shareholder	Number of Shares *(Note 1)*	Nature of interest	Approximate percentage of interest
Liu Yang *(Note 5)*	223,400,000 (L)	Interest of controlled corporation	11.32%
Kingston Finance Limited	238,000,000 (L)	Person having a security interest in Shares	12.05%
Ample Cheer Limited *(Note 6)*	238,000,000 (L)	Interest of controlled corporation	12.05%
Best Forth Limited *(Note 7)*	238,000,000 (L)	Interest of controlled corporation	12.05%
Chu Yuet Wah *(Note 8)*	238,000,000 (L)	Interest of controlled corporation	12.05%

Notes:

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

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

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

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

5. Atlantis Investment Management (Hong Kong) Limited is owned as to 100% by Ms. Liu Yang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Ms. Liu Yang is deemed to be interested in all Shares in which Atlantis Investment Management (Hong Kong) Limited is deemed to be interested.

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

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

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

Save as disclosed above, as at 30 June 2011, no person, or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 52 to the financial statements.

AUDITORS

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

On behalf of the Board

Zhang Peter Y.
Chairman

Hong Kong
30 September 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Board has set up the remuneration committee of the Board ("**Remuneration Committee**") with written terms of reference prepared in accordance with the Code Provisions and has adopted a written set of terms of reference of the audit committee of the Board ("**Audit Committee**") which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year ended 30 June 2011 ("**Year**"), the Company has complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board is currently composed of four executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Deng Jie as the chief executive officer, Mr. Long Xian Feng and Mr. Zhou Chong Ke; two non-executive Directors comprising Mr. Wee Ee Lim (Ms. Lim Seok Bin Zann as his alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 16 to 18 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each non-executive Director is appointed for a term of three years and each independent non-executive Director is appointed for a term of two years.

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

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

(2) discussed future business plans of the Group; and

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

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

	Attendance
Executive Directors	
Mr. Zhang Peter Y. *(Chairman)*	4/4
Mr. Deng Jie *(Chief Executive Officer)*	4/4
Mr. Long Xian Feng	4/4
Mr. Zhou Chong Ke	4/4
Non-executive Directors	
Mr. Wee Ee Lim *(Ms. Lim Seok Bin Zann as his alternative)*	4/4
Mr. Tarn Sien Hao	4/4
Independent non-executive Directors	
Professor Kung Hsiang Fu	4/4
Professor Tso Wung Wai	4/4
Mr. Hon Yiu Ming, Matthew	4/4

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

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

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

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

NOMINATION OF DIRECTORS

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

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

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

REMUNERATION COMMITTEE

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

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

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

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

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

AUDITORS' REMUNERATION

During the Year, the auditors of the Company provided audit and non-audit services to the Group at the fee of HK$2,000,000 and HK$60,000 respectively.

AUDIT COMMITTEE

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

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

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

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

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

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

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

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

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

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2011, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on page 39 to 40 of the annual report of the Company.

INTERNAL CONTROL

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Hua Han Bio-Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 135 which comprise the consolidated statement of financial position as at 30 June 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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 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 our agreed terms of engagement 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2011 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
30 September 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Turnover	8	**1,157,263**	808,642
Cost of sales		**(316,936)**	(226,901)
Gross profit		**840,327**	581,741
Other income	10	**7,392**	7,233
Selling and distribution expenses		**(419,007)**	(276,545)
Administrative expenses		**(71,780)**	(77,154)
Impairment loss on intangible assets	21	**(58,702)**	–
Gain on disposal of a subsidiary	46	**9,975**	–
Gain on deemed partial disposal of interest in associates	24	**14,489**	–
Share of profit of associates		**30,072**	–
Fair value gain on derivative financial instruments	36	**5,534**	21,193
Gain on disposal of prepaid lease payments	20	**–**	69,947
Finance costs	11	**(2,475)**	(3,985)
Profit before taxation		**355,825**	322,430
Taxation	12	**(73,478)**	(77,962)
Profit for the year from continuing operations		**282,347**	244,468
Discontinued operations			
Profit for the year from discontinued operations	13	**192,944**	117,446
Profit for the year	14	**475,291**	361,914
Profit for the year attributable to:			
Owners of the Company			
From continuing operations		**274,885**	215,404
From discontinued operations		**166,953**	49,896
		441,838	265,300
Non-controlling interests			
From continuing operations		**7,462**	29,064
From discontinued operations		**25,991**	67,550
		33,453	96,614
		475,291	361,914
Earnings per share (in Hong Kong cents)	18		
From continuing and discontinued operations			
Basic		**22.83**	15.68
Diluted		**22.37**	15.35
From continuing operations			
Basic		**14.20**	12.73
Diluted		**13.92**	12.47

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	2011	2010
	HK$'000	*HK$'000*
Profit for the year	**475,291**	361,914
Other comprehensive income (expenses)		
Exchange differences arising from translation of foreign operations	**81,665**	56,534
Gain on revaluation of buildings	**10,158**	7,479
Share of other comprehensive income of associates	**9,547**	–
Deferred tax arising on revaluation on buildings	**(2,170)**	(1,578)
Other comprehensive income for the year, net of tax	**99,200**	62,435
Total comprehensive income for the year	**574,491**	424,349
Total comprehensive income attributable to:		
Owners of the Company	**531,287**	327,627
Non-controlling interests	**43,204**	96,722
	574,491	424,349

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	19	**300,010**	251,141
Prepaid lease payments	20	**29,992**	30,238
Intangible assets	21	**225,008**	295,275
Deferred expenditure	22	**59,426**	56,649
Goodwill	23	**110,273**	112,450
Interests in associates	24	**314,508**	–
Interest in a jointly controlled entity	25	**–**	–
Deposits and prepayments	26	**197,205**	139,561
Deferred tax assets	42	**235**	6,171
		1,236,657	891,485
Current assets			
Inventories	27	**28,169**	33,184
Trade and bills receivables	28	**567,730**	492,362
Other receivables, deposits and prepayments	29	**363,629**	285,422
Tax recoverable		**6,326**	–
Bank balances and cash	30	**1,456,597**	1,406,536
		2,422,451	2,217,504
Assets classified as held for sale	31	**–**	319,928
		2,422,451	2,537,432
Current liabilities			
Trade payables	32	**32,249**	37,013
Other payables and accrued expenses	33	**129,096**	38,396
Obligations under finance leases	34	**201**	74
Bank borrowings	35	**32,347**	55,526
Derivative financial instruments	36	**–**	5,534
Tax payables		**49,314**	56,388
		243,207	192,931
Liabilities directly associated with assets classified as held for sale	31	**–**	88,344
		243,207	281,275
Net current assets		**2,179,244**	2,256,157
Total assets less current liabilities		**3,415,901**	3,147,642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	40	**197,433**	160,234
Reserves	41(a)	**2,985,185**	2,522,645
Equity attributable to owners of the Company		**3,182,618**	2,682,879
Share award reserve of a subsidiary		**–**	11,269
Non-controlling interests		**143,462**	388,498
Total equity		**3,326,080**	3,082,646
Non-current liabilities			
Obligations under finance leases	34	**674**	281
Deferred tax liabilities	42	**62,693**	64,715
Deferred income	44	**26,454**	–
		89,821	64,996
		3,415,901	3,147,642

The consolidated financial statements on pages 41 to 135 were approved and authorised for issue by the board of directors on 30 September 2011 and are signed on its behalf by:

Zhang Peter Y.
Director

Deng Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Attributable to owners of the Company												
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Asset revaluation reserve** *HK$'000*	**Statutory reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Share option reserve** *HK$'000*	**Other reserve** *HK$'000*	**Retained profits** *HK$'000*	**Proposed final dividend** *HK$'000*	**Total** *HK$'000*	**Share award reserve of a subsidiary** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 July 2009	132,110	421,276	13,122	91,627	201,229	–	–	732,434	36,991	1,628,789	–	243,551	1,872,340
Profit for the year	–	–	–	–	–	–	–	265,300	–	265,300	–	96,614	361,914
Other comprehensive income for the year	–	–	5,887	–	56,440	–	–	–	–	62,327	–	108	62,435
Total comprehensive income for the year	–	–	5,887	–	56,440	–	–	265,300	–	327,627	–	96,722	424,349
Issue of shares upon placing *(Note 40(b))*	26,474	680,382	–	–	–	–	–	–	–	706,856	–	–	706,856
Share issue expenses	–	(16,726)	–	–	–	–	–	–	–	(16,726)	–	–	(16,726)
Recognition of equity-settled share-based payments	–	–	–	–	–	26,480	–	–	–	26,480	11,269	–	37,749
Issue of shares upon exercise of share options *(Note 40(c))*	1,650	18,694	–	–	–	(4,174)	–	–	–	16,170	–	–	16,170
Partial disposal/deemed disposal of subsidiaries	–	–	–	–	–	–	26,100	–	–	26,100	–	54,168	80,268
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	8,906	–	–	8,906	–	(8,906)	–
Disposal of a subsidiary	–	–	–	–	(1,369)	–	–	–	–	(1,369)	–	–	(1,369)
Transfer to statutory reserve fund *(Note 41)*	–	–	–	12,629	–	–	–	(15,592)	–	(2,963)	–	2,963	–
Final dividend paid	–	–	–	–	–	–	–	–	(36,991)	(36,991)	–	–	(36,991)
Proposed final dividend *(Note 17)*	–	–	–	–	–	–	–	(48,070)	48,070	–	–	–	–
At 30 June 2010	160,234	1,103,626	19,009	104,256	256,300	22,306	35,006	934,072	48,070	2,682,879	11,269	388,498	3,082,646
At 1 July 2010	160,234	1,103,626	19,009	104,256	256,300	22,306	35,006	934,072	48,070	2,682,879	11,269	388,498	3,082,646
Profit for the year	–	–	–	–	–	–	–	441,838	–	441,838	–	33,453	475,291
Other comprehensive income for the year	–	–	7,175	–	76,966	5,309	–	–	–	89,450	–	9,750	99,200
Total comprehensive income for the year	–	–	7,175	–	76,966	5,309	–	441,838	–	531,288	–	43,203	574,491
Bonus shares issued *(Note 40(d))*	32,047	(32,047)	–	–	–	–	–	–	–	–	–	–	–
Issue of shares upon exercise of share options *(Note 40(e))*	5,152	50,552	–	–	–	(13,628)	–	–	–	42,076	–	–	42,076
Write back of share award expense	–	–	–	–	–	–	–	–	–	–	(7,921)	–	(7,921)
Deemed disposal of subsidiaries *(Note 47)*	–	–	–	(15,315)	(9,387)	–	(26,100)	44,763	–	(6,039)	(3,348)	(260,910)	(270,297)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	(17,316)	–	–	(17,316)	–	(39,801)	(57,117)
Acquisition of assets and liabilities through acquisition of a subsidiary *(Note 45)*	–	–	–	–	–	–	–	–	–	–	–	1,202	1,202
Disposal of a subsidiary *(Note 46)*	–	–	–	–	(2,200)	–	–	–	–	(2,200)	–	–	(2,200)
Transfer to statutory reserve fund *(Note 41)*	–	–	–	11,840	–	–	–	(11,840)	–	–	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	11,270	11,270
Final dividend paid	–	–	–	–	–	–	–	–	(48,070)	(48,070)	–	–	(48,070)
Proposed final dividend *(Note 17)*	–	–	–	–	–	–	–	(67,127)	67,127	–	–	–	–
At 30 June 2011	197,433	1,122,131	26,184	100,781	321,679	13,987	(8,410)	1,341,706	67,127	3,182,618	–	143,462	3,326,080

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
OPERATING ACTIVITIES			
Profit before taxation from continuing operations		**355,825**	322,430
Profit before taxation from discontinued operations		**201,767**	142,376
Profit before taxation		**557,592**	464,806
Amortisation of intangible assets		**36,498**	42,476
Amortisation of prepaid lease payments		**1,441**	1,881
Depreciation of property, plant and equipment		**18,135**	13,770
Fair value gain on derivative financial instruments		**(10,634)**	(38,438)
Finance costs		**2,475**	4,033
Gain on deemed disposal of subsidiaries	*47*	**(152,077)**	–
Share of profit of associates		**(30,072)**	–
Gain on disposal of a subsidiary	*46*	**(9,975)**	(1,369)
Gain on deemed partial disposal of interest in associates	*24*	**(14,489)**	–
Gain on disposal of prepaid lease payment		**–**	(69,947)
Impairment loss on intangible assets		**58,702**	–
Impairment loss on trade and bills receivables		**2,490**	1,236
Impairment loss on other receivables		**1,253**	938
Interest income		**(5,838)**	(2,902)
Recognition of deferred income		**(1,566)**	–
Loss on disposal of property, plant and equipment		**1,090**	101
(Write back of share award expenses)/share-based payments		**(7,921)**	37,749
Operating cash flow before movements in working capital		**447,104**	454,334
Decrease (increase) in non-current deposits and prepayments		**5,364**	(112,337)
Decrease (increase) in inventories		**2,524**	(14,042)
Increase in trade and bills receivables		**(137,299)**	(128,569)
Decrease (increase) in other receivables, deposits and prepayments		**96,599**	(169,565)
(Decrease) increase in trade payables		**(2,401)**	19,730
Increase in other payables and accrued expenses		**72,016**	7,589
Cash generated from operations		**483,907**	57,140
Income tax paid		**(94,569)**	(88,019)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**389,338**	(30,879)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Deposit paid for acquisition of property, plant and equipment		**(197,205)**	–
Net cash (outflow) inflow from partial disposal and deemed partial disposal of subsidiaries		**(184,968)**	129,340
Purchase of property, plant and equipment		**(43,903)**	(4,172)
Net cash outflow from acquisition of additional interest in a subsidiary		**(29,893)**	–
Net cash outflow from acquisition of assets through acquisition of a subsidiary		**(4,209)**	–
Deposit paid for acquisition of additional interest in a subsidiary		**–**	(27,224)
Net cash inflow from disposal of a subsidiary	*46*	**35,480**	1,136
Interest received		**5,838**	2,902
Proceeds from disposal of property, plant and equipment		**5**	4,713
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(418,855)**	106,695
FINANCING ACTIVITIES			
Dividend paid		**(48,070)**	(36,991)
Repayment of bank borrowings		**(56,870)**	(72,202)
Repayment of obligation under a finance lease		**(160)**	(45)
New bank borrowings raised		**31,582**	55,086
Proceeds from placing of new shares		**–**	706,856
Proceeds from issue of shares upon exercises of share options		**42,076**	16,170
Contribution from non-controlling interests		**11,270**	–
Expenses on issue of shares		**–**	(16,726)
Interest paid		**(2,419)**	(4,014)
Finance lease charges paid		**(56)**	(19)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(22,647)**	648,115
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(52,164)**	723,931
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,456,011**	719,438
Effect of foreign exchange rate changes		**52,750**	12,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,456,597**	1,456,011
Cash and cash equivalents at the end of the year, represented by:			
Bank balances and cash		**1,456,597**	1,406,536
Bank balances and cash included in assets classified as held for sales	*31*	**–**	49,475
		1,456,597	1,456,011

1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). For the period up to September 2010, the management of the Company had considered HK$ as the functional currency of the Company. In September 2010, the Company completed the spin-off of a non-wholly owned subsidiary, Magic Holdings Group Limited ("**Magic Holdings**") and its subsidiaries which operated in the primary economic environment using HK$. As a result of such spin-off, the directors of the Company are of the view that the functional currency of the Company has been changed from HK$ to Renminbi ("**RMB**") as the remaining investments of the Company are mainly operated in the primary economic environment using RMB. The presentation currency of the Company and the Group would remain to be in HK$ for consistent presentation and the use of investors.

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

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

Application of new and revised standards, amendments and interpretations

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

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

Application of new and revised standards, amendments and interpretations (continued)

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standards ("**HKAS**") 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
Hong Kong – Interpretation ("**Int**") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Hong Kong (International Financial Reporting Interpretations Committee) ("**HK (IFRIC)**") – Int 19	Extinguishing Financial Liabilities with Equity Instrument

Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the consolidated financial statements.

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

New or revised standards, amendments and interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[6]
HKFRS 11	Joint Arrangements[6]
HKFRS 12	Disclosure of Interests in Other Entities[6]
HKFRS 13	Fair Value Measurement[6]
HKAS 1	Presentation of Financial Statements[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (2011)	Employee Benefits[6]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 27 (2011)	Separate Financial Statements[6]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[6]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]

[1] Effective for annual periods beginning on or after 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 January 2011.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2013.

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

New or revised standards, amendments and interpretations issued but not yet effective (continued)

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 either at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of 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, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is 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 July 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Groups' 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.

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

New or revised standards, amendments and interpretations issued but not yet effective (continued)

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

The new standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of the new standards are applied early at the same time. The directors of the Company anticipate that these new standards will be applied in the Group's consolidated financial statements for financial year ended 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposures, or rights to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on different types of joint arrangement: jointly controlled entities, jointly controlled assets and jointly controlled operations.

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

New or revised standards, amendments and interpretations issued but not yet effective (continued)

HKAS 24 titled Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (Revised) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of other new and revise 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 buildings and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and 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 into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). 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 associates or a jointly controlled entity.

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

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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 subsidiaries

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

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

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates 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 investments in associates. 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 associates of the Group, profits and losses resulting from the transactions with the associates are recognised in the Group's consolidated financial statements only to the extent of the interest in the associates that are not related to the Group.

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting.

Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity 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 a jointly controlled entity. 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.

From 1 July 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

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 related taxes.

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

Deferred income is recognised over the period of the underlying agreement.

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 other than leasehold buildings and construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plants and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised on profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold land and buildings

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.

Leasing

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

The Group as lessee

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired in a business combination

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

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

Intangible assets acquired separately

Intangible asset acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Operating right

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

Technical knowhow

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately (continued)

Research and development expenditure

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

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

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

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

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

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment loss (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately (continued)

Trade name

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

Deferred expenditure

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

Inventories

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

From 1 July 2010 onwards, on the disposal of a foreign operations (i.e. a disposal of the Group's entire interest in a foreign operations, or a disposal involving loss of control over a subsidiary that includes a foreign operations, all of the exchange differences accumulated in equity in respect of that operations attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

Borrowings costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash.

Financial instruments

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

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

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

Loans and receivables

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

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment loss on financial assets (continued)

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 180 – 365 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Equity instruments

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

Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Equity settled share-based payment transactions

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment of assets

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

Impairment of trade and bills receivables and other receivables

Impairment of trade and bills receivables and other receivables is made based on assessment of the recoverability of trade and other receivables. The identification of impairment requires management judgment and estimation. Where the actual outcome or expectation in future is different from the original estimation, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed. As at 30 June 2011, the carrying amount of trade and bills receivables and other receivable is HK$567,730,000 (net of allowance for doubtful debts of HK$4,549,000) and HK$263,395,000 (net of impairment loss of approximately HK$2,221,000) respectively (30 June 2010: carrying amount of trade and bills receivables of HK$492,362,000, net of allowance for doubtful debts of approximately HK$1,905,000 and carrying amount of other receivables of HK$134,350,000, net of impairment loss of approximately HK$938,000, respectively).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimation of fair value of buildings outside Hong Kong

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2011, the carrying amount of goodwill was approximately HK$110,273,000 (2010: HK$112,450,000). Details of impairment testing on goodwill are set out in Note 23.

Estimated impairment of intangible assets and deferred expenditure

The Group performs annual assessments on whether there have been impairment of intangible assets and deferred expenditure. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the businesses, pre-tax discount rates and other assumptions underlying the value-in-use calculations. For any instance where this evaluation process indicates impairment, the relevant intangible asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement. Impairment loss on intangible assets of approximately HK$58,702,000 has been recognised for the year ended 30 June 2011 (2010: nil).

Impairment of interests in associates

The Group tests interests in associates for impairment annually in accordance with its accounting policy. More regular reviews are performed if events indicate that this is necessary. The assessment of the net tangible assets of the associates affects the result of the impairment test. Costs of investments in associates which have ceased operations were impaired up to share of net assets of the associates. The impairment made on interests in an associate entails an impairment of associates to be made to the amount owing by the associates.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Income taxes

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

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 capital structure of the Group consists of debt, which includes obligation under finance lease and bank borrowings disclosed in Notes 34 and 35 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 30 June 2011 and 2010.

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

	2011	2010
	HK$'000	*HK$'000*
Total debt	**33,222**	55,881
Equity attributable to the owners of the Company	**3,182,618**	2,682,879
Gearing ratio	**1.0%**	2.1%

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)		
Trade and bills receivables	**567,730**	492,362
Other receivables and deposits	**289,936**	135,054
Bank balances and cash	**1,456,597**	1,406,536
	2,314,263	2,033,952
Financial liabilities		
Other financial liabilities at amortised cost		
Trade payables	**32,249**	37,013
Other payables and accrued expenses	**123,469**	38,396
Bank borrowings	**32,347**	55,526
Obligations under a finance leases	**875**	355
	188,940	131,290
Derivative financial instruments	**–**	5,534

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

Foreign currency risk

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

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to the reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit after tax and retained earnings (due to changes in the fair value of monetary assets and liabilities).

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table details the Group's sensitivity to a 10% increase and decrease in RMB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates. A positive number below indicates an increase in profit after tax for the year where RMB strengthen 10% against the relevant currency. For a 10% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit after tax and the balances below would be negative.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit after tax and retained earnings**
	%	*HK$'000*
2011		
If Hong Kong dollar weakens against RMB	**10**	**3,183**
If Hong Kong dollar strengthens against RMB	**(10)**	**(3,183)**
2010		
If Hong Kong dollar weakens against RMB	10	6,409
If Hong Kong dollar strengthens against RMB	(10)	(6,409)

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk

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

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

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

	Increase in interest rate *(basis point)*	Decrease in profit after tax and retained earnings *HK$'000*
2011	**100**	**243**
2010	100	231

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

As at 30 June 2011, the Group's concentration of credit risk by geographical locations is mainly the PRC, which accounted for 100% (2010: 100%) of the total trade and bills receivables.

As at 30 June 2011, the Group has significant concentration of credit risk as 95% of deposit and prepayment arising from deposits paid for the acquisition of property, plant and equipment (2010: 80% of deposit and prepayment arising from deposit paid for the acquisition of additional interest in a subsidiary) due from one independent third party.

As at 30 June 2011, the Group has certain significant concentration risk as 42% (2010: 96%) of other receivables were due from one independent third party.

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

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. Details of the Group's obligations under finance leases and bank borrowings were set out in Notes 34 and 35 respectively. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

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

	Within 1 year or repayable on demand *HK$'000*	1 – 5 years *HK$'000*	More than 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amounts *HK$'000*
As at 30 June 2011					
Trade payables	**32,249**	**–**	**–**	**32,249**	**32,249**
Other payables and accrued expenses	**123,469**	**–**	**–**	**123,469**	**123,469**
Bank borrowings	**34,050**	**–**	**–**	**34,050**	**32,347**
Obligations under a finance leases	**257**	**707**	**39**	**1,003**	**875**
	190,025	**707**	**39**	**190,771**	**188,940**
As at 30 June 2010					
Trade payables	37,013	–	–	37,013	37,013
Other payables and accrued expenses	38,396	–	–	38,396	38,396
Bank borrowings	57,298	–	–	57,298	55,526
Obligations under finance leases	95	316	–	411	355
	132,802	316	–	133,118	131,290

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are based on observable market data (unobservable inputs).

	30 June 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Derivative financial instruments	**–**	**–**	**–**	**–**

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Reconciliation of Level 3 fair value measurements of financial liabilities

	HK$'000
At 1 July 2009	–
Addition	49,072
Fair value change recognised in the consolidated income statement	
– continuing	(21,193)
– discontinued	(17,245)
Classified as liabilities directly associated with assets classified as held for sale	(5,100)
At 30 June 2010	5,534
Fair value change recognised in the consolidated income statement	
– continuing	(5,534)
At 30 June 2011	–

8. TURNOVER

Turnover represents the amounts received and receivable from the manufacturing and trading of pharmaceutical products during the year.

9. SEGMENT INFORMATION

The Group's operating segments based on information reported to the chief operating decision maker, being the chief executive office of the Company, for the purpose of resource allocation and performance assessment is the manufacturing, sale and trading of Chinese and Western pharmaceutical products, mainly including gynecological medicines, bio-pharmaceutical and bio-technological products in the PRC.

On 24 September 2010, the Group completed the spin-off of a non-wholly owned subsidiary, Magic Holdings and its subsidiaries (collectively referred to as the 'Magic Group'), which were engaged in the manufacturing and trading of facial mask and other skincare products. The segment information reported does not include any amounts for this discontinued operations, which are described in more detail in Note 13.

9. SEGMENT INFORMATION (continued)

Segment revenues, results, assets and liabilities

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

Geographical information

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

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group from continuing operations are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A *(Note)*	**212,587**	N/A

Note: The corresponding revenue did not contribute over 10% of the total sales of the Group for the year ended 30 June 2010.

10. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Continuing operations:		
Bank interest income	**5,826**	2,825
Recognition of deferred income on distribution rights	**1,566**	–
Government subsidy *(Note)*	**–**	4,322
Others	**–**	86
	7,392	7,233

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

11. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Continuing operations:		
Interest expenses on:		
– bank borrowings repayable within five years	**2,419**	3,966
– finance lease charges	**56**	19
Total borrowing costs charged to the consolidated income statement	**2,475**	3,985

12. TAXATION

	2011	2010
	HK$'000	*HK$'000*
Continuing operations:		
PRC Enterprise Income Tax ("**EIT**")		
– Current year	**77,392**	84,268
– Underprovision in prior year	**317**	5,807
	77,709	90,075
Deferred tax *(Note 42)*		
– Current year	**(4,231)**	(12,113)
	73,478	77,962

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

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

Pursuant to the income tax rules and regulations of the PRC, Guiyang De Chang Xiang Pharmaceutical Company Limited ("**DCX**"), a subsidiary was recognised as high technology enterprise on 25 November 2008 and therefore is entitled to a preferential tax rate of 15% for three years, with effective from 25 November 2008.

12. TAXATION (continued)

Pursuant to the income tax rules and regulations of the PRC, 桂林華諾威基因藥業有限公司 (“**華諾威**”), a foreign investment subsidiary was recognised as high technology enterprise on 25 December 2009 and therefore is entitled to a preferential tax rate of 15% for three years, with effective from 1 January 2010.

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

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

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

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation from continuing operations	**355,825**	322,430
Tax at the domestic tax rate of 25% (2010: 25%)	**88,956**	80,607
Tax effect of share of profit of associates	**(7,518)**	–
Tax effect of expenses not deductible for tax purpose	**20,220**	6,793
Tax effect of income not taxable for tax purpose	**(7,499)**	(5,298)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**1,264**	5,006
Tax effect on preferential tax rate	**(22,326)**	(14,953)
Effect of changes in tax rate	**64**	–
Underprovision in prior year	**317**	5,807
Tax charge for the year (relating to continuing operations)	**73,478**	77,962

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

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

13. DISCONTINUED OPERATIONS

During the year, the Group completed the spin-off of its operations in facial mask and skincare products through separate listing of its non-wholly owned subsidiary Magic Group on the Stock Exchange on 24 September 2010. Details of which are set out in the prospectus of Magic Holdings dated on 10 September 2010. Upon the listing of the Magic Group, the Group's interests in the Magic Holdings was diluted from 36.4% to 25.94% and pursuant to the cancellation of the Voting-in-Concert Undertakings (as defined in Note 38), the investments in Magic Group would recognised as investments in associates. As at 30 June 2010, it was accounted for as assets classified as held for sale and liabilities directly associated with assets classified as held for sale. Details of changes are set out in Notes 24 and 38 respectively.

The profit from the discontinued operation is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit of facial mask and skincare products operations for the period/year	**40,867**	117,446
Gain on deemed disposal of subsidiaries *(Note 47)*	**152,077**	–
	192,944	117,446

The results of the operations in facial mask and skincare products for the period from 1 July 2010 to 24 September 2010 which have been included in the consolidated income statement as discontinued operations were as follows:

	Period from 1 July 2010 to 24 September 2010	Year ended 30 June 2010
	HK$'000	*HK$'000*
Turnover	**187,125**	631,039
Cost of sales	**(38,608)**	(145,323)
Gross profit	**148,517**	485,716
Other income	**22**	1,851
Selling and distribution expenses	**(102,254)**	(332,621)
Administrative expenses	**(9,616)**	(29,767)
Write-back share award expense	**7,921**	–
Fair value gain on derivative financial instruments	**5,100**	17,245
Finance costs	**–**	(48)
Profit before taxation	**49,690**	142,376
Taxation	**(8,823)**	(24,930)
Profit for the period/year from discontinued operations	**40,867**	117,446

13. DISCONTINUED OPERATIONS (continued)

	Period from 1 July 2010 to 24 September 2010 *HK$'000*	Year ended 30 June 2010 *HK$'000*
Profit for the period/year attributable to:		
Owners of the Magic Holdings	**41,086**	118,583
Non-controlling interests	**(219)**	(1,137)
	40,867	117,446
Net cash from operating activities	**39,141**	82,596
Net cash from (used in) investing activities	**117,081**	(92,265)
Net cash (used in) from financing activities	**(20,729)**	51,658
Net cash inflow	**135,493**	41,989

Profit for the period/year from discontinued operations including the following:

	Period from 1 July 2010 to 24 September 2010 *HK$'000*	Year ended 30 June 2010 *HK$'000*
Amortisation of intangible assets	**–**	3,791
Auditors' remuneration	**350**	1,400
Cost of inventories sold	**38,608**	145,323
Staff costs (including directors' emoluments)	**16,230**	31,229
(Write back of share award expense)/share-based payments *(Note)*	**(7,921)**	11,269
Depreciation of property, plant and equipment	**–**	490
Minimum lease payment under operating leases in respect of land and buildings	**444**	1,612
Net foreign exchange gains	**(10)**	(8)
Loss on disposal of property, plant and equipment	**–**	101
Bank interest income	**(12)**	(77)
Gain on disposal of a subsidiary *(Note 46)*	**–**	(1,369)
Fair value gain on derivative financial instruments	**(5,100)**	(17,245)

Note: The amount represents the write-back of overprovision of share award expense upon the non-acceptance of the shares of Magic Holdings previously granted to certain management shareholders under the share award plan of Magic Holdings.

14. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Continuing operations:		
Amortisation of intangible assets	**36,498**	38,685
Amortisation of prepaid lease payments	**1,441**	1,881
Auditors' remuneration	**2,000**	2,000
Cost of inventories sold	**316,936**	226,901
Staff costs (including directors' emoluments) *(Note 15)*	**32,627**	35,288
Share-based payments *(Note 43)*	**–**	26,480
Depreciation of property, plant and equipment	**18,135**	13,280
Impairment loss on trade and bills receivables	**2,490**	1,236
Impairment loss on other receivables	**1,253**	938
Loss on disposal of property, plant and equipment	**1,090**	–
Minimum lease payment under operating leases in respect of land and buildings	**2,135**	2,294
Research and development costs recognised as an expense	**1,521**	836
Net foreign exchange losses	**–**	1,464

15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2010: ten) directors were as follows:

For the year ended 30 June 2011

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Retirement benefit schemes contribution	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:						
Mr. Zhang Peter Y.	–	165	1,173	7	–	1,345
Mr. Deng Jie	–	252	1,080	7	–	1,339
Mr. Long Xian Feng	–	110	987	7	–	1,104
Mr. Zhou Chong Ke	–	110	400	7	–	517
Non-executive directors:						
Mr. Wee Ee Lim	200	–	–	–	–	200
Mr. Tarn Sien Hao	200	–	–	–	–	200
Independent non-executive directors:						
Professor Kung Hsiang Fu	200	–	–	–	–	200
Professor Tso Wung Wai	200	–	–	–	–	200
Mr. Hon Yiu Ming, Matthew	200	–	–	–	–	200
	1,000	637	3,640	28	–	5,305

15. DIRECTORS' EMOLUMENTS (continued)

For the year ended 30 June 2010

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

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

Discretionary bonus for the two years ended 30 June 2011 and 2010 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

No directors waived or agreed to waive any emoluments paid by the company during the two years ended 30 June 2011 and 2010.

During the years ended 30 June 2011 and 2010, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

16. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in the disclosures in Note 15. The emolument of the remaining one (2010: one) highest paid individual was as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries, allowance, other benefits and bonus	**598**	644
Retirement benefit schemes contribution	**12**	12
Share-based payments	**–**	1,204
	610	1,860

Note: The emolument of the above highest paid individual fell within the nil to HK$1,000,000 (2010: HK$1,500,001 to HK$2,000,000) band.

During the years ended 30 June 2011 and 2010, 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.

17. DIVIDEND

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend – HK3.4 cents (2010: HK3 cents)	**67,127**	48,070

Final dividend for 2011

The final dividend of HK3.4 cents per share has been proposed by the directors and is subject to approval by the Company's shareholders in the forthcoming Annual General Meeting.

In addition, the directors further proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by the shareholders whose name appear on the register on 28 December 2011.

The final dividend for 2011 and bonus issue are subject to approval by the Company's shareholders in the forthcoming annual general meeting.

17. DIVIDEND (continued)

Final dividend for 2010

On 27 October 2010, the Board resolved to propose a final cash dividend of HK3 cents per share amounting to HK$48,070,248 and bonus issue on the basis of one bonus share for every five existing shares held by shareholders whose name appear on the register on 17 December 2010 for the year ended 30 June 2010. The final dividend and bonus issue had been approved by the Company's shareholders in the annual general meeting on 17 December 2010.

18. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share	**441,838**	265,300

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,935,580**	1,692,458
Effect of dilutive ordinary shares in respect of share options	**39,716**	35,611
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,975,296**	1,728,069

The number of ordinary shares for both years for the purpose of basic and diluted earnings per share has been adjusted for the bonus issue approved pursuant to the annual general meeting held on 17 December 2010.

18. EARNINGS PER SHARE (continued)

From continuing operations

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

Earnings figures are calculated as follows:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to the owners of the Company	**441,838**	265,300
Less: Profit for the year attributable to the owners of the Company from discontinued operations	**(166,953)**	(49,896)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	**274,885**	215,404

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operations is HK8.63 cents per share (2010: HK2.95 cents per share) and diluted earnings per share for the discontinued operations is HK8.45 cents per share (2010: HK2.88 cents per share), based on the profit for the year from discontinued operations attributable to owners of the Company of HK$166,953,000 (2010:HK$49,896,000) and the denominators detailed above for both basic and diluted earnings per share.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AT COST OR VALUATION						
At 1 July 2009	98,513	5,914	70,241	21,883	106,699	303,250
Exchange realignment	1,020	185	775	306	1,120	3,406
Additions	–	–	2,601	1,944	27	4,572
Disposals	(4,844)	(114)	–	–	–	(4,958)
Increase in revaluation	2,823	–	–	–	–	2,823
Classified as assets held for sale	–	–	(1,196)	(2,334)	–	(3,530)
At 30 June 2010	97,512	5,985	72,421	21,799	107,846	305,563
Exchange realignment	7,018	874	3,653	1,149	4,221	16,915
Additions	–	–	603	1,626	42,265	44,494
Disposals	–	–	–	(1,974)	–	(1,974)
Transfer	86,704	–	–	–	(86,704)	–
Increase in revaluation	839	–	–	–	–	839
At 30 June 2011	192,073	6,859	76,677	22,600	67,628	365,837
Comprising:						
At cost	–	6,859	76,677	22,600	67,628	173,764
At valuation	192,073	–	–	–	–	192,073
	192,073	6,859	76,677	22,600	67,628	365,837

19. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ACCUMULATED DEPRECIATION						
At 1 July 2009	–	1,704	30,409	14,756	–	46,869
Exchange realignment	–	44	482	194	–	720
Provided for the year	4,787	253	6,630	2,100	–	13,770
Eliminated on disposals	(131)	(13)	–	–	–	(144)
Eliminated on revaluation	(4,656)	–	–	–	–	(4,656)
Classified as assets held for sale	–	–	(709)	(1,428)	–	(2,137)
At 30 June 2010	–	1,988	36,812	15,622	–	54,422
Exchange realignment	–	697	2,011	760	–	3,468
Provided for the year	9,319	250	6,688	1,878	–	18,135
Eliminated on disposals	–	–	–	(879)	–	(879)
Eliminated on revaluation	(9,319)	–	–	–	–	(9,319)
At 30 June 2011	–	2,935	45,511	17,381	–	65,827
CARRYING VALUES						
At 30 June 2011	192,073	3,924	31,166	5,219	67,628	300,010
At 30 June 2010	97,512	3,997	35,609	6,177	107,846	251,141

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

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

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

19. PROPERTY, PLANT AND EQUIPMENT (continued)

The buildings situated outside Hong Kong for office and certain production premises were revalued by DTZ Debenham Tie Leung Limited ("**DTZ**"), an independent firm of registered professional surveyors not connected with the Group. The buildings have been valued on depreciated replacement cost approach. The valuation conforms to International Valuation Standards. At 30 June 2011, the buildings were assessed at approximately HK$192,073,000 (2010: HK$97,512,000). In the current year, revaluation surplus of HK$10,158,000 (2010: HK$7,479,000) has been credited to the asset revaluation reserve.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been approximately HK$129,874,000 (2010: HK$59,525,000).

For the year ended 30 June 2011, motor vehicles included an amount of approximately HK$893,000 (2010: HK$371,000) in respect of assets held under a finance lease.

At 30 June 2011, certain of the Group's buildings with net carrying amounts of approximately HK$34,872,000 (2010: HK$32,669,000) were pledged to secure certain banking facilities granted to the Group *(Note 35)*.

20. PREPAID LEASE PAYMENTS

	2011	2010
	HK$'000	*HK$'000*
At 1 July	**30,710**	90,113
Exchange realignment	**1,471**	466
Amortised during the year	**(1,441)**	(1,881)
Disposal *(Note)*	**–**	(57,988)
At 30 June	**30,740**	30,710

20. PREPAID LEASE PAYMENTS (continued)

	2011	2010
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset included in other receivables, deposits and prepayments	**748**	472
Non-current assets	**29,992**	30,238
	30,740	30,710

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

At 30 June 2011, the carrying value of the Group's prepaid lease payments with a carrying amount of approximately HK$4,525,000 (2010: HK$4,386,000) was pledged for banking facilities granted to the Group *(Note 35)*.

Note:

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

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

Since the conditions under the Agreement had been fulfilled, a gain on disposal of HK$69,947,000 had been recognised in the consolidated income statement for the year ended 30 June 2010. Consideration receivable for the disposal amounting to approximately HK$79,836,000 (2010: HK$127,935,000) was included in other receivables *(Note 29)*.

21. INTANGIBLE ASSETS

	Trade name *HK$'000*	Operating rights *HK$'000*	Technical knowhow *HK$'000*	Deferred development costs *HK$'000*	Total *HK$'000*
AT COST					
At 1 July 2009	34,032	22,688	364,624	6,892	428,236
Exchange realignment	357	238	3,826	72	4,493
Classified as assets held for sale	(34,389)	–	–	–	(34,389)
At 30 June 2010	–	22,926	368,450	6,964	398,340
Exchange realignment	–	–	20,237	341	20,578
Additions *(Note)*	–	–	24,049	–	24,049
Acquired through acquisition of a subsidiary *(Note 45)*	–	4,872	–	–	4,872
Derecognition upon disposal of a subsidiary	–	(22,926)	–	–	(22,926)
At 30 June 2011	–	4,872	412,736	7,305	424,913
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 July 2009	3,782	3,402	53,387	6,892	67,463
Exchange realignment	70	54	573	72	769
Provided for the year	3,791	2,275	36,410	–	42,476
Classified as assets held for sale	(7,643)	–	–	–	(7,643)
At 30 June 2010	–	5,731	90,370	6,964	103,065
Exchange realignment	–	–	7,030	341	7,371
Provided for the year	–	406	36,092	–	36,498
Impairment	–	–	58,702	–	58,702
Derecognition upon disposal of a subsidiary	–	(5,731)	–	–	(5,731)
At 30 June 2011	–	406	192,194	7,305	199,905
CARRYING VALUES					
At 30 June 2011	–	4,466	220,542	–	225,008
At 30 June 2010	–	17,195	278,080	–	295,275

Note: Pursuant to the purchase agreement of a technical knowhow to produce biochips and the related patent right, the Group is committed to pay RMB20,000,000 to the vendor if this technology is properly registered to the relevant government authority in the PRC. The registration was completed on 11 May 2011, thus the RMB20,000,000 (approximately HK$24,049,000) was recognised as intangible assets, and the amount was not paid as at the end of reporting period and included in other payable.

21. INTANGIBLE ASSETS (continued)

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

Trade name	9 years
Operating rights	4 years
Technical knowhow	10 years
Deferred development costs	8 years

During the year ended 30 June 2011, the directors of the Company conducted a review of the Group's intangible assets and determined that the technical knowhow to produce biochips were impaired, due to demand of the biochips was less than expected, with reference to an independent valuation performed by DTZ as at 30 June 2011. The valuation is based on the relief from royalty method using cash flow projections based on the financial budgets approved by senior management covering a five-year period. The royalty rates used on the technical knowhow to produce biochips is at 10% (2010: 10%) and at a discount rate of 18% (2010: 18%). Accordingly, impairment losses of approximately HK$58,702,000 has been recognised in respect of the technical knowhow for the year ended 30 June 2011.

22. DEFERRED EXPENDITURE

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

The Group had assessed the recoverable amount of the deferred expenditure with reference to an independent valuation performed by DTZ as at 30 June 2011. The valuation is based on the relief from royalty method using cash flow projections based on the financial budgets approved by senior management covering a five-year period. The royalty rates used at 15% (2010: 15%) and at a discount rate of 18% (2010: 18%).

The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of the cash-generating unit to exceed the recoverable amount. Since the recoverable amount of the cash-generating unit is higher than its carrying amount, the directors consider that the carrying value of the deferred expenditure at the end of both reporting period are not impaired.

23. GOODWILL

	Total
	HK$'000
COST	
At 1 July 2009	128,222
Classified as assets held for sale	(15,772)
At 30 June 2010	112,450
Released on disposal of a subsidiary *(Note 46)*	(2,177)
At 30 June 2011	110,273
ACCUMULATED IMPAIRMENT LOSS	
At 1 July 2009, 30 June 2010 and 30 June 2011	–
CARRYING VALUES	
At 30 June 2011	110,273
At 30 June 2010	112,450

Impairment testing on goodwill

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

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

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

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2010: 3%). The discount rate applied to cash flow projections is 18% (2010: 18%).

23. GOODWILL (continued)

Impairment testing on goodwill (continued)

Trading of pharmaceutical products cash-generating unit

As at 30 June 2010, the recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period, followed by an extrapolation of expected cash flows at the average growth rates of 3%. The discount rate applied to cash flow projections is 5.28%.

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

	2011	2010
	HK$'000	*HK$'000*
Manufacture and sale of pharmaceutical products medicinal healthcare products for women and bio-pharmaceutical products	**110,273**	126,045
Trading of pharmaceutical products	**–**	2,177
Less: classified as assets held for sale	**–**	(15,772)
	110,273	112,450

The key assumptions for the cash flow projections are the budgeted gross margin which is the average gross profit margin achieved in the year immediately before budget years and the discount rate of 18% (2010: 18%), which is before tax and reflects specific risks relating to the respective cash-generating units.

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

24. INTERESTS IN ASSOCIATES

	2011	2010
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in Hong Kong	**274,889**	–
Unlisted	**–**	601
Impairment charge	**–**	(601)
	274,889	–
Share of post-acquisition profits and other comprehensive income	**39,619**	–
	314,508	–
Fair value of listed investments	**889,180**	–

As at 30 June 2011 and 2010, the Group had interests in the following associates:

Name	Place of incorporation and operations	Percentage of ownership interest attributable to the Group 2011	2010	Principal activity
Tengen Lizhu Biotech Co. Limited ("**TLB**")	Hong Kong	**N/A**	33%	Inactive
Magic Holdings	Cayman Islands	**25%**	N/A	Investment holding

The shareholding of the Company in TLB is held through a wholly-owned subsidiary of the Company. During the year, TLB has been deregistrated. TLB does not have any significant assets and liabilities as at date of deregistration, nor any significant results.

On 27 September 2010, 30,000,000 ordinary shares of HK$0.10 each of Magic Holdings were issued at a subscription price of HK$3.3 each as a result of the exercise of an over-allotment option by the sole global coordinator, resulting in the Group's interest in Magic Group being diluted from 25.94% to 25%. Gain on deemed partial disposal of interest in associates amounted to approximately HK$14,489,000 was recognised in the consolidated income statement for the year ended 30 June 2011.

24. INTERESTS IN ASSOCIATES (continued)

The audited financial information in respect of the Group's associate, Magic Holdings, is set out below:

	2011
	HK$'000
Total assets	**1,366,975**
Total liabilities	**(108,943)**
Net assets	**1,258,032**
Group's share of net assets of an associates	**314,508**
Revenue	**770,197**
Profit for the year	**120,287**
Other comprehensive income	**38,189**
Group's share of profits and other comprehensive income of associates for the year	**39,619**

25. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2011	2010
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**170**	170
Share of post-acquisition losses	**(170)**	(170)
	–	–

25. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

As at 30 June 2011 and 2010, the Group had interests in a jointly-controlled entity as follows:

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

During the year, the Group did not share any of the losses of GHMR (2010: Nil) as, according to the joint venture agreement, the Group's share of losses of GHMR is limited to its capital contribution to GHMR, which was reached in prior years.

GHMR remained inactive during the year ended 30 June 2011 and 2010. The jointly controlled entity does not have any significant assets and liabilities as at 30 June 2011 and 2010, nor any significant results for the year ended 30 June 2011 and 2010.

26. DEPOSITS AND PREPAYMENTS

	2011	2010
	HK$'000	*HK$'000*
Deposits paid in respect of:		
Acquisition of additional interest in a subsidiary *(Note 1)*	**–**	27,224
Deposit paid for acquisition of technical knowhow *(Note 2)*	**–**	112,337
Deposit paid for leasehold improvement	**10,821**	–
Deposits paid for acquisition of plant and equipment *(Note 3)*	**186,384**	–
	197,205	139,561

Notes:

(1) On 28 June 2010, Guizhou Hanfang Medicine Manufacture Co. Ltd. ("**GHMM**") and Ms. Yang Yin ("**Vendor**") entered into an agreement (the "**Equity Transfer Agreement**") for the acquisition of the remaining 20% of the equity interest in Guilin Gu Jin Pharmaceutical Technology Co. Ltd. ("**Guilin Gu Jin**"), an 80%-owned subsidiary of the Company, for a consideration of RMB47,500,000 (equivalent to approximately HK$57,117,000).

As at 30 June 2010, the Group had paid RMB23,750,000 (equivalent to approximately HK$27,224,000) to the Vendor and the remaining purchase price of RMB23,750,000 (equivalents to approximately HK$28,559,000) was paid during the year ended 30 June 2011.

26. DEPOSITS AND PREPAYMENTS (continued)

Notes: (continued)

(2) The amount as at 30 June 2010 represented deposits of RMB98,000,000 (equivalent to approximately HK$112,337,000) paid to a pharmaceutical institute located in Beijing, the PRC (the "**Beijing Pharmaceutical Institute**") for the acquisition of certain technical knowhow of recombinant human epidermal growth factor technology ("**New Technical Knowhow**").

On 5 May 2011, the Group entered into a transfer agreement with the Beijing Pharmaceutical Institute and an independent third party, Beijing Xingda YongSheng Investment Company Limited ("**Xingda Yongsheng**"), to dispose of the medicine exploitation projects to Xingda Yongsheng for a cash consideration of RMB98 million. Pursuant to the transfer agreement, Xingda Yongsheng will pay RMB98 million to the Group and will continue to carry out the medicine exploitation projects with the Beijing Pharmaceutical Institute. Cash consideration of RMB5 million has been received by the Group during the year. The remaining balance of RMB93 million (approximately HK$111,830,000) were included in other receivable under current assets. According to the payment terms of the transfer agreement, RMB20 million and RMB73 million will be due in September and December 2011, respectively.

(3) On 9 May 2011, the Group entered into a purchase agreement with Guizhou Shunzhi Trade Co., Ltd. ("**Guizhou Shunzhi**"), pursuant to the purchase agreement, Guizhou Shunzhi will be responsible for the sourcing of plant and equipment for production line of Human Placental Serum Albumin and upfront deposit of RMB155 million (equivalent to approximately HK$186 million) had been paid upon entering into the purchase agreement. Those plant and equipment were not yet received at 30 June 2011 and the amount is classified as deposit paid for acquisition of plant and equipment and included in the non-current assets.

27. INVENTORIES

	2011 ***HK$'000***	2010 *HK$'000*
Raw materials	**17,551**	17,163
Finished goods	**10,618**	16,021
	28,169	33,184

28. TRADE AND BILLS RECEIVABLES

	2011 ***HK$'000***	2010 *HK$'000*
Trade receivables	**567,361**	490,663
Bills receivables	**4,918**	3,604
Less: Impairment loss	**(4,549)**	(1,905)
	567,730	492,362

28. TRADE AND BILLS RECEIVABLES (continued)

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

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

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**247,032**	242,480
91 – 180 days	**236,846**	152,405
181 – 365 days	**83,472**	96,890
Over 365 days	**380**	587
	567,730	492,362

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

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

	2011	2010
	HK$'000	*HK$'000*
At 1 July	**1,905**	652
Exchange realignment	**154**	17
Recognised during the year	**2,490**	1,236
At 30 June	**4,549**	1,905

Included in the provision for impairment of trade and bills receivables are individually impaired receivables with an aggregate balance of HK$4,549,000 (2010: HK$1,905,000). The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss is recognised. The Group does not hold any collateral over these receivables.

28. TRADE AND BILLS RECEIVABLES (continued)

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

	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	483,878	394,885
Past due but not impaired:		
181 – 365 days	83,472	96,890
Over 365 days	380	587
	567,730	492,362

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

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011	2010
	HK$'000	HK$'000
Other receivables	265,616	135,288
Less: impairment loss	(2,221)	(938)
	263,395	134,350
Prepayments	72,945	149,896
Deposits	26,541	704
Prepaid lease payments	748	472
	363,629	285,422

For the year ended 30 June 2011, included in other receivables are consideration receivable of approximately HK$79,836,000 (2010: HK$127,935,000) for the disposal of the prepaid lease payments during the year ended 30 June 2010 *(Note 20)* and consideration receivable of approximately HK$113,830,000 for the disposal of the medicine exploitation projects *(Note 26)*.

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

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

	2011	2010
	HK$'000	*HK$'000*
At 1 July	**938**	–
Exchange realignment	**30**	–
Recognised during the year	**1,253**	938
At 30 June	**2,221**	938

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$2,221,000 (2010: HK$938,000) which had been long outstanding. The Group does not hold any collateral over these balances.

The Group's other receivables, deposits and prepayments that are denominated in currencies other than the functional currency of respective group entity as follows:

	2011	2010
	HK$'000	*HK$'000*
HK$	**22,633**	8,999

30. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 30 June 2011 included amounts of approximately HK$1,441,206,000 (2010: HK$1,374,245,000) denominated in RMB which is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carry interest at market rates which range from 0.01% to 0.50% (2010: 0.01% to 0.36%) per annum.

The Group's bank balances that are denominated in currencies other than the functional currency of respective group entity as follows:

	2011	2010
	HK$'000	*HK$'000*
HK$	**15,391**	66,925

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

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

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

32. TRADE PAYABLES

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

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**24,997**	27,329
91 – 180 days	**2,043**	6,905
181 – 365 days	**2,180**	779
Over 365 days	**3,029**	2,000
	32,249	37,013

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

33. OTHER PAYABLES AND ACCRUED EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Accrued liabilities	**85,984**	22,678
Other payables	**37,484**	14,770
Receipt in advance	**818**	948
Deferred income *(Note 44)*	**4,810**	–
	129,096	38,396

The Group's other payables and accrued liabilities are denominated in currencies other than the functional currency of respective group entity as follows:

	2011	2010
	HK$'000	*HK$'000*
HK$	**3,587**	9,746

34. OBLIGATIONS UNDER FINANCE LEASES

The lease term of the finance leases was five years. Interest rate is fixed at 3.75% (2010: 3.75%) at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**257**	95	**201**	74
In more than one year, but not more than two years	**257**	95	**217**	78
In more than two years, but not more than five years	**450**	221	**418**	203
In more than five years	**39**	–	**39**	–
	1,003	411	**875**	355
Less: future finance charges	**(128)**	(56)	**N/A**	N/A
Present value of lease obligation	**875**	355		
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(201)**	(74)
Amount due for settlements after twelve months			**674**	281

For the year ended 30 June 2011 and 2010, the Group's obligation under finance leases is secured by the lessor's charge over the leased assets.

The Group's obligations under finance leases are denominated in currencies other than the functional currency of respective group entity as follows:

	2011	2010
	HK$'000	*HK$'000*
HK$	**875**	355

35. BANK BORROWINGS

	2011	2010
	HK$'000	*HK$'000*
Analysed as:		
Secured	**32,347**	24,692
Unsecured	**–**	30,834
	32,347	55,526

	2011	2010
	HK$'000	*HK$'000*
Carrying amounts repayable:		
On demand or within one year and amounts due within one year	**32,347**	55,526

At 30 June 2011 and 2010, the Group's bank borrowings are secured by the Group's buildings of approximately HK$34,872,000 (2010: HK$32,669,000) *(Note 19)* and prepaid lease payments of approximately HK$4,525,000 (2010: HK$4,386,000) *(Note 20)*.

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

	2011	2010
	HK$'000	*HK$'000*
Fixed-rate loans	**–**	24,692
Variable-rate loans	**32,347**	30,834
	32,347	55,526

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

35. BANK BORROWINGS (continued)

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

	2011	2010
Effective interest rates:		
Fixed-rate loans	**N/A**	5.841%
Variable-rate loans	**6.363% to 6.626%**	5.576%

All bank borrowings are denominated in RMB.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	HK$'000
At 1 July 2009	–
Addition	49,072
Fair value change recognised in the consolidated income statement	
– continuing	(21,193)
– discontinued	(17,245)
Classified as liabilities directly associated with assets classified as held for sale	(5,100)
At 30 June 2010	5,534
Fair value change recognised in the consolidated income statement	
– continuing	(5,534)
At 30 June 2011	–

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

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

36. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

Follow the listing of Magic Group on The Stock Exchange on 24 September 2010, the Derivatives became extinguished and was derecognised from the consolidated statement of financial position of the Group and HK$5,534,000 have been included in the consolidated income statement to the year ended 30 June 2011.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Investments in subsidiaries	38	**133,703**	133,703
Current assets			
Amounts due from subsidiaries	39	**1,312,155**	1,147,533
Prepayments		**180**	180
Bank balances and cash		**10,627**	31,453
		1,322,962	1,179,166
Current liabilities			
Amounts due to subsidiaries	39	**24,584**	–
Other payables and accrued expenses		**298**	1,554
		24,882	1,554
Liabilities directly associated with assets classified as held for sale		**–**	4,073
		24,882	5,627
Net current assets		**1,298,080**	1,173,539
Total assets less current liabilities		**1,431,783**	1,307,242
Capital and reserves			
Share capital	40	**197,433**	160,234
Reserves	41(b)	**1,167,223**	1,098,938
Proposed final dividend	17	**67,127**	48,070
		1,431,783	1,307,242

38. INVESTMENTS IN SUBSIDIARIES

	2011 HK$'000	2010 HK$'000
Unlisted investments, at cost	**133,703**	133,703

Details of the principal subsidiaries held by the Company as at 30 June 2011 and 2010 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group 2011	2010	Principal activities
Direct subsidiaries							
Intended Features Limited	Ordinary shares	BVI	BVI	375,875 ordinary shares of US$1 each	100%	100%	Investment holding
Indirect subsidiaries							
GHMM* [2]	Ordinary shares	PRC	PRC	466,909,000 ordinary shares of RMB1 each (2010: 499,829,420 ordinary shares of HK$1 each)	100%	100%	Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products
貴州漢方息烽藥業有限公司**	Ordinary shares	PRC	PRC	3,000,000 ordinary shares of RMB1 each	95%	95%	Property holding
Factorr Universal Limited ("**Factorr**") [1]	Ordinary shares	BVI	BVI	200 ordinary shares of US$1 each	69.5%	92.02%	Investment holding
Guizhou Factorr ** [1]	Ordinary shares	PRC	PRC	100,000,000 ordinary shares of HK$1 each	75%	75%	Manufacture and sale of biological medicine

38. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group 2011	Attributable equity interest of the Group 2010	Principal activities
Indirect subsidiaries (continued)							
廣東群禾藥業有限公司 ("**廣東群禾**") ** 5	Ordinary shares	PRC	PRC	10,000,000 ordinary shares of RMB1 each	N/A	36.4%	Trading of medicinal healthcare products
廣州美即化妝品有限公司 ("**Guangzhou Magic**") 5	Ordinary shares	PRC	PRC	40,000,000 ordinary shares of HK$1 each	N/A	36.4%	Manufacture and sale of medicinal healthcare products
DCX*** 3	Ordinary shares	PRC	PRC	200,000,000 ordinary shares of RMB1 each	99.7%	99.7%	Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products
Magic Holdings 5	Ordinary shares	BVI	BVI	834,910,614 ordinary shares of HK$0.1 each (2010: 21,739 ordinary shares of US$1 each)	N/A	36.4%	Investment holding
華諾威** 4	Ordinary shares	PRC	PRC	US$1,400,000	65%	52%	Manufacture and sale of bio-pharmaceutical medicine
Guilin Gu Jin** 4	Ordinary shares	PRC	PRC	1,000,000 ordinary shares of RMB1 each	100%	80%	Investment holding
貴州漢方國美醫藥有限公司 ("**國美**") ** 6	Ordinary shares	PRC	PRC	5,000,000 ordinary shares of RMB1 each	N/A	100%	Trading of pharmaceutical products
北京東麗盛化妝品有限公司 ("**北京東麗盛**") ** 5	Ordinary shares	PRC	PRC	5,000,000 ordinary shares of RMB1 each	N/A	25.48%	Sale of medicinal healthcare products
西藏昌都地區康源醫藥有限公司 ("**昌都康源**") * 7	Ordinary shares	PRC	PRC	5,000,000 ordinary shares of RMB1 each	80%	N/A	Trading of pharmaceutical products

38. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

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

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

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

1 On 13 August 2010, the Group entered into an agreement with the minority shareholders of Guizhou Factorr, a non wholly-owned subsidiary of the Group, to further acquire 18.5% equity interests in Guizhou Factorr at an aggregate consideration of RMB18,880,000. In addition, on 18 March 2011, the Group entered into another agreement with independent third parties to dispose of 22.5% equity interest in Factorr, a non wholly-owned subsidiary of the Group, in a consideration of RMB18,880,000. Both acquisition and disposal were completed on 18 March 2011 and thereafter, the effective equity interest in Factorr held by the Group decreases from 92.02% to 68.5% while the effective equity interest in Guizhou Factorr remained unchanged. No material gain or loss was resulted.

2 On 26 April 2010, a capital injection in cash of RMB299,003,000 (equivalent to approximately HK$340,000,000) was made by the Group to GHMM and the registered capital of GHMM was increased from RMB168,111,000 (equivalent to approximately HK$159,829,000) to RMB466,909,000 (equivalent to approximately HK$499,829,000). The capital injection did not result in any percentage change of equity interest held by the Group.

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

4 On 28 June 2010, the Group entered into an agreement to acquire the remaining equity interests of 20% in Guilin Gu Jin in consideration of RMB47,500,000 (approximately HK$57,117,000). Upon the completion of acquisition, Guilin Gu Jin became a wholly-owned subsidiary of the Group. And the effective interests in 華諾威, a subsidiary of Guilin Gu Jin, increased from 52% to 65%.

5 Became an associate as detailed in Note 13 and 24.

6 Disposed during the year ended 30 June 2011.

7 On 17 December 2010, the Group entered into an agreement to acquired 80% of 昌都康源 in consideration of RMB4,000,000.

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

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

40. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary share of HK$0.10 each		
Authorised:		
At 1 July 2009 and 30 June 2010	**2,000,000,000**	200,000
Increased on 6 January 2011 *(Note (a))*	**2,000,000,000**	200,000
At 30 June 2011	**4,000,000,000**	400,000
Issued and fully paid:		
At 1 July 2009	**1,321,101,600**	132,110
Issue of shares upon placing *(Note (b))*	**264,740,000**	26,474
Issue of shares upon exercise of share options *(Note(c))*	**16,500,000**	1,650
30 June 2010	**1,602,341,600**	160,234
Bonus issue *(Note (d))*	**320,468,320**	32,047
Issue of shares upon exercise of share options *(Note (e))*	**51,520,000**	5,152
30 June 2011	**1,974,329,920**	197,433

Notes:

(a) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting held on 17 December 2010, the authorised share capital was increased from HK$200,000,000 to HK$400,000,000 by creation of an additional 2,000,000,000 ordinary shares of HK$0.10 each of the Company which rank pari passu with the existing shares in all respect.

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

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

(d) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting held on 17 December 2010, bonus shares on the basis of one bonus share, credited as fully paid, for every five existing issued ordinary shares were approved. On 7 January 2011, 320,468,320 ordinary shares were issued to the shareholders. The new shares rank pari passu with the existing shares in all respect.

(e) During the year ended 30 June 2011, an aggregate of 51,520,000 share options had been exercised by certain employees of the Company at a subscription price of HK$0.8167 per share for a total consideration approximately of HK$42,076,000, resulting in an issue of 51,520,000 new ordinary shares of HK$0.10 each. The new shares rank pari passu with the existing shares in all respect.

41. RESERVES

(a) The Group

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

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

Other reserve represents the reserve arising from acquisition of additional interests and partial disposal/deemed disposal of interests in subsidiaries from non-controlling interests.

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

(b) The Company

	Share premium *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 July 2009	532,188	–	(54,205)	477,983
Issue of shares upon placing	680,382	–	–	680,382
Share issue expenses	(16,726)	–	–	(16,726)
Recognition of equity-settled share-based payments	–	26,480	–	26,480
Issue of share upon exercise of share options	18,694	(4,174)	–	14,520
Loss for the year	–	–	(35,631)	(35,631)
Proposed final dividend	–	–	(48,070)	(48,070)
At 30 June 2010	1,214,538	22,306	(137,906)	1,098,938
Bonus shares issued	(32,047)	–	–	(32,047)
Issue of share upon exercise of share options	50,552	(13,628)	–	36,924
Profit for the year	–	–	130,535	130,535
Proposed final dividend	–	–	(67,127)	(67,127)
At 30 June 2011	1,233,043	8,678	(74,498)	1,167,223

41. RESERVES (continued)

(b) The Company (continued)

The share premium account of the Company includes share premium of HK$1,146,203,000 (2010: HK$1,127,698,000) and the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor of HK$86,840,000 (2010: HK$86,840,000) pursuant to the Group Reorganisation.

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

42. DEFERRED TAXATION

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

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Revaluation of leasehold buildings *HK$'000*	Total *HK$'000*
At 1 July 2009	73,129	3,026	76,155
Exchange realignment	834	32	866
Debited to consolidated statement of comprehensive income for the year	–	1,578	1,578
Credited to consolidated income statement for the year			
– continuing operations	(6,249)	–	(6,249)
– discontinued operations	(948)	–	(948)
Deferred tax liabilities associated with assets classified as held for sale	(6,687)	–	(6,687)
At 30 June 2010	60,079	4,636	64,715
Exchange realignment	1,272	966	2,238
Debited to consolidated statement of comprehensive income for the year	–	2,170	2,170
Credited to consolidated income statement for the year			
– continuing operations	(6,399)	–	(6,399)
– effect from change of tax rate	(31)	–	(31)
At 30 June 2011	54,921	7,772	62,693

42. DEFERRED TAXATION (continued)

Deferred tax assets

	Impairment loss on other receivables *HK$'000*
At 1 July 2009	1,107
Exchange realignment	45
Credited to the consolidated income statement for the year	
– continuing operations	5,864
– discontinued operations	501
Deferred tax assets associated with assets classified as held for sale	(1,346)
At 30 June 2010	6,171
Exchange realignment	266
Debited to the consolidated income statement for the year	
– continuing operations	(2,104)
– effect from change of tax rate	(95)
Derecognise of disposal of a subsidiary	(4,003)
At 30 June 2011	235

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

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008. During the two years ended 30 June 2011 and 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the directors, the Group is able to control the timing of the reversal of the temporary differences and it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future. As at 30 June 2011, the aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounting to approximately HK$75,563,000 (2010: HK$56,796,000).

43. SHARE OPTION SCHEME

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

The total number of securities which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of the limit. The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the broad of directors, and commences from the date of acceptance of the grant of options and ends on a date which is not later than 10 years from the date of the grant of the share options subject to the provisions for early termination under the Scheme.

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

43. SHARE OPTION SCHEME (continued)

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

Details of specific categories of options granted under the Scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price per share Before adjustment	 After adjustment *(Note)*
17 August 2009	N/A	17 August 2009 to 16 August 2011	HK$0.9800	HK$0.8167

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

Year ended 30 June 2011

	Outstanding at 1 July 2010	Adjustment made during the year *(Note)*	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2011
Directors						
Mr. Zhang Peter Y.	1,300,000	260,000	–	–	–	1,560,000
Mr. Deng Jie	1,300,000	260,000	–	–	–	1,560,000
Mr. Long Xian Feng	13,000,000	2,600,000	–	–	–	15,600,000
Mr. Bian Shu Guang*	1,300,000	260,000	–	–	–	1,560,000
Mr. Zhou Chong Ke**	10,000,000	2,000,000	–	–	–	12,000,000
	26,900,000	5,380,000	–	–	–	32,280,000
Other employees	44,600,000	8,920,000	–	(51,520,000)	–	2,000,000
	71,500,000	14,300,000	–	(51,520,000)	–	34,280,000
Exercisable at the end of reporting period						34,280,000
Weighted average exercise price						HK$0.8988

43. SHARE OPTION SCHEME (continued)

Year ended 30 June 2010

	Outstanding at 1 July 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2010
Directors					
Mr. Zhang Peter Y.	–	1,300,000	–	–	1,300,000
Mr. Deng Jie	–	1,300,000	–	–	1,300,000
Mr. Long Xian Feng	–	13,000,000	–	–	13,000,000
Mr. Bian Shu Guang*	–	1,300,000	–	–	1,300,000
Mr. Zhou Chong Ke**	–	10,000,000	–	–	10,000,000
Non executive directors					
Mr. Wee Ee Lim	–	1,300,000	(1,300,000)	–	–
Mr. Tarn Sien Hao	–	1,300,000	(1,300,000)	–	–
Independent non-executive directors					
Professor Kung Hsiang Fu	–	1,300,000	(1,300,000)	–	–
Professor Tso Wung Wai	–	1,300,000	(1,300,000)	–	–
Mr. Hon Yiu Ming, Matthew	–	1,300,000	(1,300,000)	–	–
	–	33,400,000	(6,500,000)	–	26,900,000
Other employees	–	54,600,000	(10,000,000)	–	44,600,000
	–	88,000,000	(16,500,000)	–	71,500,000
Exercisable at the end of reporting period					71,500,000
Weighted average exercise price					HK$0.9800

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

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

43. SHARE OPTION SCHEME (continued)

In respect of the share options exercised during the year ended 30 June 2011, the weighted average share price at the date of exercise is HK$0.8988 (30 June 2010: HK$0.98).

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

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

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

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

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

Note:

The exercise price of the share options is subject to adjustment in case of rights or bonus issue or other similar changes in the Company's share capital. Following the bonus issue which completed on 7 January 2011, as detailed in Note 40(d), the exercise price and the number of the share options outstanding were adjusted accordingly.

44. DEFERRED INCOME

	HK$'000
At 1 July 2010	–
Deferred income arise from disposal of a subsidiary during the year	32,090
Deferred income recognised during the year	(1,566)
Exchange realignment	740
At 30 June 2011	31,264
Analysed for reporting purposes as:	–
Current liabilities included in other payable and accrued expenses	4,810
Non-current liabilities	26,454
At 30 June 2011	31,264

Pursuant to the exclusive distribution agreement dated 7 January 2008, 華諾威, a non-wholly owned subsidiary of the Group, had granted the exclusive distribution rights in bio-pharmaceutical products for ten years to 國美, a subsidiary being disposed of during the year, in consideration of RMB40,000,000 (equivalent to approximately HK$42,978,000). The consideration is recognised by 華諾威 as deferred income on exclusive distribution rights over 10 years. The carrying value of the above deferred income was approximately RMB27,333,000 (equivalent to approximately HK$32,090,000) at date of disposal of 國美, and was recognised in the consolidated statement of financial position upon the disposal of 國美.

45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 1 March 2011, the Group acquired the operating rights through the acquisition of 80% equity interest in 昌都康源, from two independent third parties, in cash consideration of approximately RMB4,000,000 (equivalents to HK$4,810,000). The directors considered this transaction did not constitute a business combination for accounting purpose and therefore accounted for as an acquisition of assets and liabilities.

The operating rights represents the Good Sales Practice ("**GSP**") and amortised for 4 years as the GSP will be expired on 8 June 2015.

45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (continued)

Details of the fair value of net assets acquired in respect of the acquisition of 昌都康源 were as follow:

	HK$'000
Net assets acquired:	
Intangible assets – operating rights	4,872
Amount due from an non-controlling equity holder of a subsidiary	1,202
Bank balances and cash	601
Other payables and accrued expenses	(663)
Net assets acquired	6,012
Less: Non-controlling interest	(1,202)
Total consideration	4,810
Satisfied by:	
Cash	4,810

Analysis of net outflow of cash and cash equivalents arising on acquisition of assets through a subsidiary:

	HK$'000
Cash consideration paid	4,810
Less: cash and cash equivalent balances acquired	(601)
	4,209

46. DISPOSAL OF A SUBSIDIARY

For the year ended 30 June 2011

During the year ended 30 June 2011, GHMM entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interest in 國美 at a cash consideration of RMB32,000,000 (equivalents to approximately HK$37,979,000).

	HK$'000
Consideration received:	
Cash received	37,979
Analysis of assets and liabilities over which control was lost:	
Goodwill	2,177
Intangible assets	49,285
Deferred tax assets	4,003
Inventories	4,895
Trade receivables	47,413
Bank balances and cash	2,499
Trade payables	(6,008)
Tax payables	(1,546)
Other payables and accrued expenses	(9,674)
Amounts due to Hua Han Group	(62,840)
Net assets disposed of	30,204
Gain on disposal of subsidiary:	
Consideration received	37,979
Net assets disposed of	(30,204)
Release of exchange reserve	2,200
Gain on disposal	9,975
Net cash from operating activities	(45,676)
Net cash used in investing activities	35
Net cash from financing activities	30,062
Net cash outflow	(15,579)
Net cash inflow arising on disposal:	
Cash consideration	37,979
Less: bank balances and cash disposed of	(2,499)
	35,480

The subsidiary disposed of during the year contributed to the Group's revenue and profit of approximately HK$215,177,000 and HK$17,853,000 respectively for the year ended 30 June 2011.

46. DISPOSAL OF A SUBSIDIARY (continued)

For the year ended 30 June 2010

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

	HK$'000
Consideration received:	
Cash received	1,136
Analysis of assets and liabilities over which control was lost:	
Other receivable	1,136
Exchange reserve realised on disposal of a subsidiary	(1,369)
Net liabilities disposed of	(233)
Gain on disposal of subsidiary:	
Consideration received	1,136
Net liabilities disposed of	233
Gain on disposal	1,369
Net cash inflow arising on disposal:	
Cash consideration	1,136

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

47. DEEMED DISPOSAL OF SUBSIDIARIES

As referred to Note 13, on 24 September 2010, the Group discontinued its operations in facial mask and skincare products at the time of the listing of Magic Group on the Stock Exchange. The net assets of Magic Group at the date of deemed disposal were as follows:

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	1,498
Deposits and prepayments	13,839
Intangible assets	27,015
Goodwill	15,772
Deferred tax assets	1,473
Inventories	6,137
Trade receivables	123,462
Prepayments, deposits and other receivables	91,935
Bank balances and cash	184,968
Trade payables	(25,813)
Other payables and accrued expenses	(36,688)
Tax payables	(18,466)
Deferred tax liabilities	(6,512)
Net assets disposed of	378,620
Gain on deemed disposal of subsidiaries:	
Fair value of interest retained in interest in an associates	260,400
Exchange reserve realised on disposal of business	9,387
Net assets disposed of	(378,620)
Non-controlling interests	260,910
Gain on deemed disposal	152,077

The financial impact of the results and cash flow of Magic Group to the Group's turnover, profit for the year and cash flows during the year is disclosed in Note 13.

48. RELATED PARTY TRANSACTIONS

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

For the year ended 30 June 2011

There is no related party transactions recorded for the year.

For the year ended 30 June 2010

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

(ii) During the year ended 30 June 2010, Magic Group has engaged Guangzhou Zhonghe Cosmetic Company Limited ("**GZCCL**"), of which the spouse of Mr. She and the daughter of Mr. Luo are two of the equity holders and directors, for production of Magic Group's products. Magic Group has paid service fee of HK$205,000 (2010: HK$205,000) to GZCCL during the year ended 30 June 2011. The transaction is non-recurring since GZCCL ceased to be related after the spouse of Mr. She and the daughter of Mr. Luo have resigned as the directors of GZCCL and transferred their interests in GZCCL to independent third parties in March 2010.

(b) **Compensation of key management personnel**

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

49. CAPITAL COMMITMENTS

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

	2011	2010
	HK$'000	*HK$'000*
Contracted but not provided for		
Acquisition of property, plant and equipment	**84,100**	15,990
Acquisition of technical knowhow	**698**	117,585
Acquisition of patent	**–**	22,926
Acquisition of additional interest in a subsidiary	**–**	27,224
	84,798	183,725

50. OPERATING LEASE COMMITMENTS

The Group as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for original terms ranging from one to fourteen years (2010: one to two years).

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

	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,894**	1,723
In the second to fifth year inclusive	**1,679**	2,827
More than five years	**39**	44
	3,612	4,594

Leases are negotiated for a term of ranging from one to fourteen years (2010: two years) with fixed rentals over the term of the lease.

51. NON-CASH TRANSACTIONS

During the year ended 30 June 2011, the Group entered into a finance lease arrangement in respect of asset with a capital value at inception of the lease of HK$680,000 (2010: HK$400,000).

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

52. EVENTS AFTER THE REPORTING PERIOD

(1) On 28 July 2011, the Company has granted 95,000,000 share options to directors and employee to subscribe for ordinary shares of HK$0.10 each of the Company. The share options were granted pursuant to the share option scheme adopted by the Group on 25 November 2002 and the share options vested immediately with the grantees on acceptance of the grant. The exercise price of the share option and closing price of the shares of the Company on the date of grant was HK$2.092 and HK$2.090 respectively. The share options granted shall be exercisable for two years from date of grant and up to 27 July 2013.

(2) On 30 September 2011, the Board proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by shareholders whose names appear on the register on 28 December 2011. The bonus shares will rank pari passu in all respects with the existing shares. Details are set out in the Company's announcement dated 30 September 2011.

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	Year ended 30 June				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,157,263**	808,642	649,154	806,204	743,856
Profit before taxation	**355,825**	322,430	157,925	214,496	174,322
Taxation	**(73,478)**	(77,962)	(39,219)	(58,247)	(36,169)
Profit for the year from continuing operation	**282,347**	244,468	118,706	156,249	138,153
Profit for the year from discontinued operation	**192,944**	117,446	66,228	–	–
Profit for the year	**475,291**	361,914	184,934	156,249	138,153
Attributable to:					
Owners of the Company	**441,838**	265,300	147,853	144,184	130,626
Non-controlling interests	**33,453**	96,614	37,081	12,065	7,527
	475,291	361,914	184,934	156,249	138,153

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 30 June				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,659,108**	3,428,917	2,172,748	2,204,321	1,651,773
Total liabilities	**(333,028)**	(346,271)	(300,408)	(672,821)	(588,862)
Non-controlling interests	**(143,462)**	(388,498)	(243,551)	(224,878)	(48,035)
	3,182,618	2,694,148	1,628,789	1,306,622	1,014,876