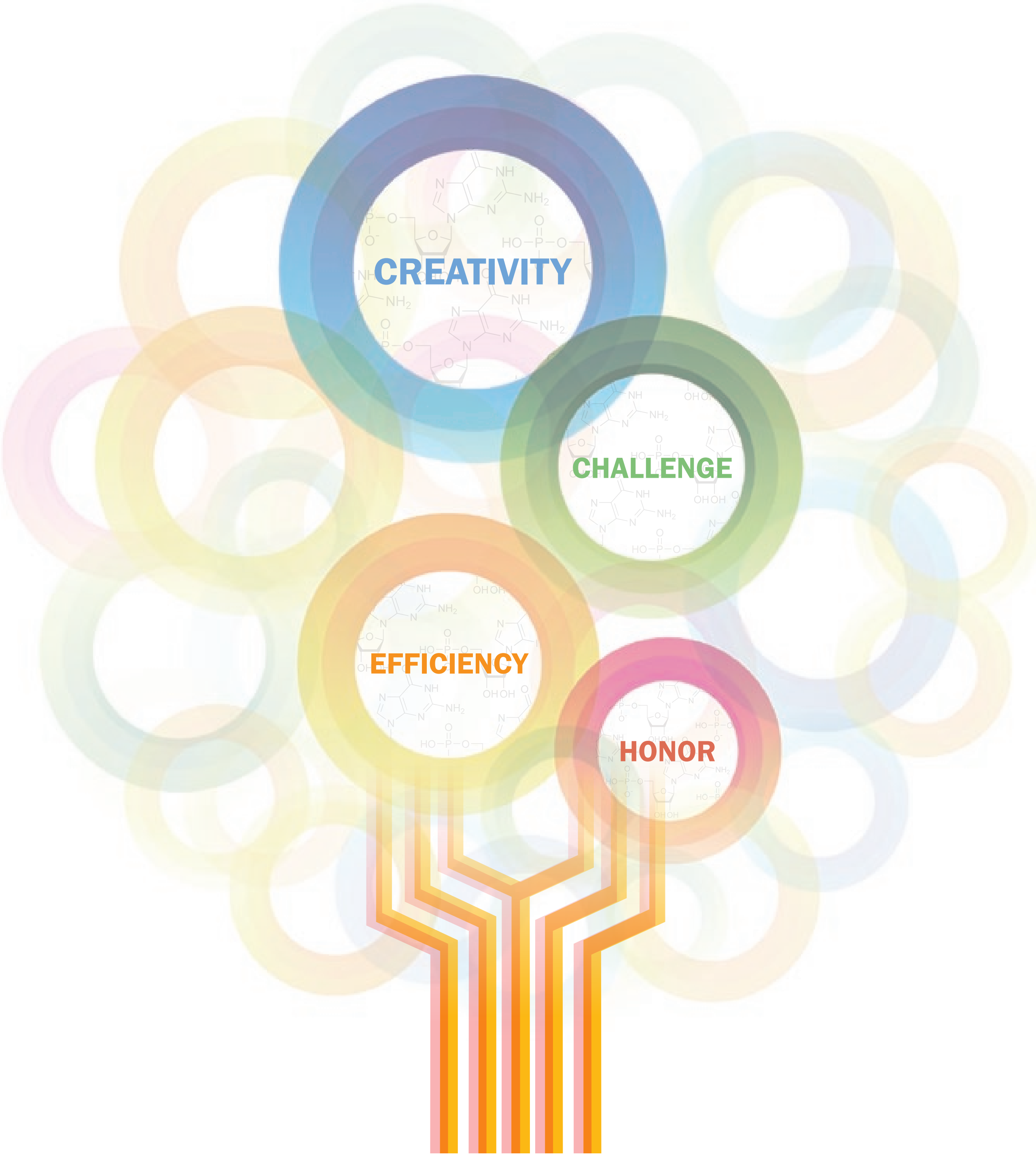
China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512



ANNUAL REPORT

2011

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Milestones

December 2005

Completion of the shareholding restructuring, and Outwit Investments Limited became the controlling shareholder of the Group

July 2008

Completed a very substantial acquisition for the equity interest of Grand Pharm (China) Company Limited (Formerly known as Wuhan Grand Pharmaceutical Company Limited) and the disposal of business and assets of China Apollo (BVI) Limited

August 2008

The Group changed name to China Grand Pharmaceutical and Healthcare Holdings Limited

November 2008

Completed a very substantial acquisition for the equity interest of Wuhan Grand Hoyo Company Limited

February 2010

Placed 200,000,000 new shares from renowned international and local institutional investors, and successfully raised funds of approximately HKD90 million

May 2010

Completed a major transaction of acquiring the equity interest of Hubei Grand Everyday Bright Eyes Company Limited (Formerly known as Hubei Ruizhu Pharmaceutical Company Limited)

June 2010

Completed a major transaction of acquiring the equity interest of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited (Formerly known as Hubei Fuchi Chemical and Pharmaceutical Company Limited)

October 2010

Completed a major transaction of acquiring the equity interest Zhejiang Xianju Xianle Pharmaceutical Company Limited

November 2011

Completed a discloseable transaction of acquiring the equity interest in Wuhan Kernel Bio Tech Company Limited

December 2010

Open offer to qualified shareholders on the basis of one offer share for every three existing shares held payable in full on application, and successfully raised approximately HKD278 million.

Main Products

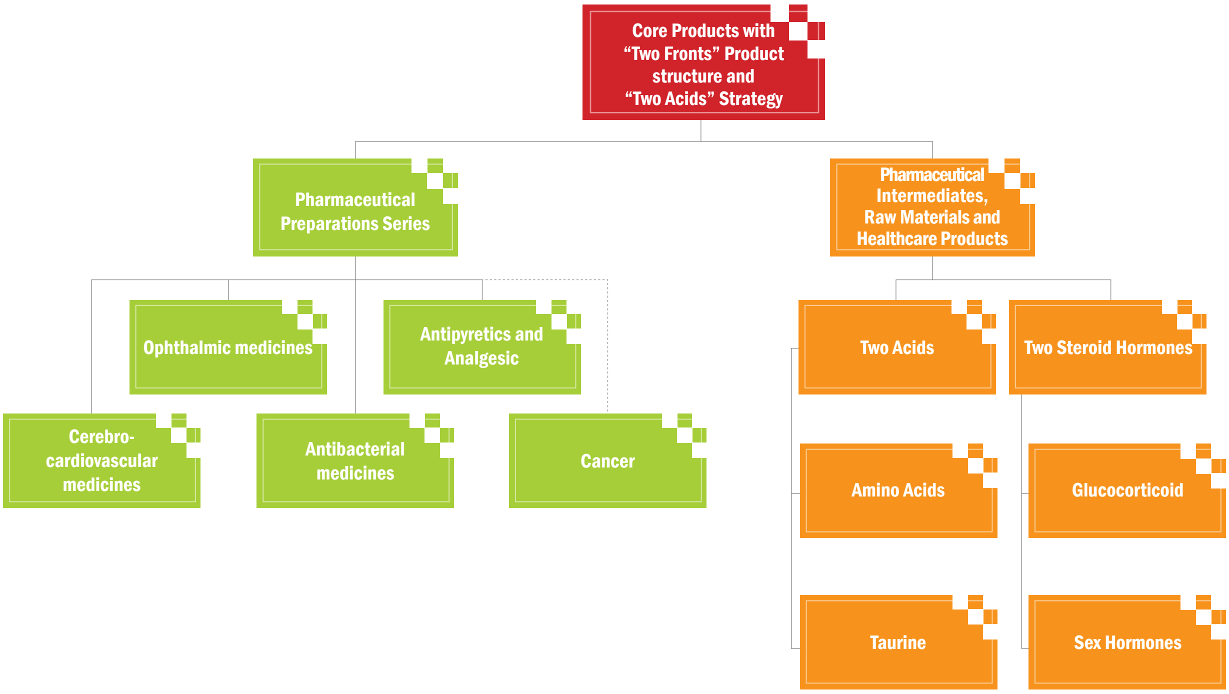
China Grand Pharmaceutical and Healthcare Holdings Limited and its subsidiaries (the "Group") are principally engaged in the research and development, manufacture and sale of pharmaceutical preparations, pharmaceutical intermediates, specialized raw materials and healthcare products. The Group aims to become one of the largest pharmaceutical and healthcare manufacturers in the People's Republic of China (the "PRC") through self business expansion and acquisitions.

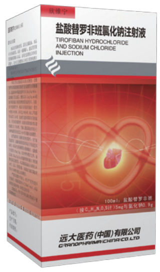
The Group takes "Two Fronts" product structure and "Two Acids" strategy. The definition of "Two Fronts" means apart from developing the core pharmaceutical preparations products, the Group must maintain the unique advantage in the field of pharmaceutical intermediates and raw materials. The definition of "Two Acids" is about the trend of development of human pharmaceutical and healthcare industry, vigorously develop the amino acids series and Taurine series, and try to penetrate and develop the pharmaceutical preparations to the downstream product chain.

In pharmaceutical preparations, the core specialized products of the Group include cerebro-cardiovascular medicines, ophthalmic medicines, antipyretics and analgesic medicines and antibacterial medicines, etc. The core products of cerebro-cardiovasuclar medicines are "Tirofiben" (Brand Name: Xin Weining) and adrenaline bibartrate injection agents, etc. The ophthalmic medicines series of the Group is the most extensive variety of products among all manufacturers and one of the largest production capacity with advanced aseptic production facilities in the PRC. Apart from market leader "Bai Nei-ting", sales of other ophthalmic medicines have maintained in high growth rate, such as "Polyvinyl Alcohol Eye Drops" and "Levofloxacin Hydrochloride Eye Gel". The ophthalmic brand of the Group "Everyday Bright Eyes" ranked as one of the top ten (including international brands) brands in the PRC.

In pharmaceutical intermediates and specialized raw materials, the Group is one of the largest manufactures of Analgin, Metronidazole and amino acids in the PRC. The Group is also one of the few manufacturers who has the steroid hormones pharmaceutical raw materials production technology, and the core products include "Betamethasone", "Dexamethasone" and "Cyproterone Acetate". In healthcare products, the Group is one of the largest manufacturers of Taurine in the PRC.

The Group has started to engage the cancer medicines field and the product development is being carried out smoothly.





Tirofiben (Brand name: Xin Weining)

- One of the Group market-driven cerebro-cardiovascular medicines
- Class 2 Medicines in the PRC
- Surgical used cerebro-cardiovascular medicines

Adrenaline bibartrate/ noradrenaline bibartrate

- Another major market-driven cerebro-cardiovascular medicines of the Group
- Adrenaline bibartrate intermediates has already approved by US FDA and exported to the US

Enoxacin

- First launched Class 2 antibiotics in the PRC
- Highly effective and safe
- Best extensive composition of the product, including raw materials, capsules, tablets, and infusion injection, etc.

Metronidazole (Brand name: Ao Ke-an)

- Highly effective antibiotics and non-toxic
- A variety of formulation available, including pharmaceutical intermediates, tablets and injection

Pirenoxine Sodium Eye Drops (Brand name: Bai Nei-ting)

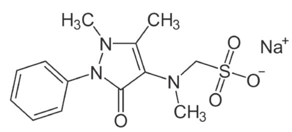
- The pioneer medication of cataract, been cured over 300 million patients in the PRC
- In 2007, Bai Nei-ting entered into the China OTC National Drug-list

Levofloxacin Hydrochloride Eye Gel (Brand name: Jie-Qi)

- Under the anti-infectious Ruizhu product series
- Medication for bacterial infection

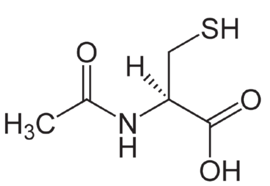
Polyvinyl Alcohol Eye Drops

- Artificial Eye drops
- Single-use vials packaging, preservative-free



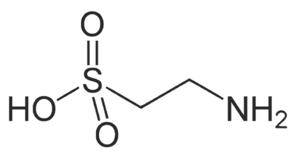
Analgin

- Classified as non-steroid antipyretic and analgesic medicines
- Medication for fever, pain relief, etc
- Variety of formulations are available, including pharmaceutical intermediates, tablets and injection



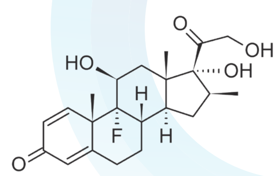
Acetyl Cysteine

- Major amino acid product series
- Received COS certification from Europe EDQM in October 2011



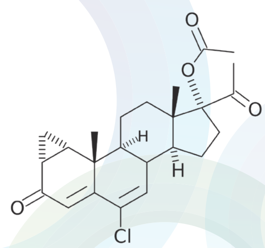
Taurine

- Main ingredient in energy drinks and used in some heart disease medicines



Betamethasone and Dexamethasone

- Under the glucocorticoid classification of steroid hormones product series
- Medication for anti-inflammatory and anti-allergic diseases



Cyproterone Acetate

- Under sex hormones product series
- Treatment for prostate cancer and benign prostatic hyperplasia diseases, etc.

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie
Mr Lo Kai, Lawrence
Dr Pei Geng

COMPANY SECRETARY

Mr Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
Mr Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms So Tosi Wan, Winnie *(Chairman)*
Mr Lo Kai, Lawrence
Dr Pei Geng

REMUNERATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Boughton Peterson Yang Anderson
Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

HSBC
China Construction Bank
China Merchants Bank
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

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

Management Discussion and Analysis

BUSINESS REVIEW

The Group is mainly engaged in research & development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialized pharmaceutical raw materials and healthcare products. Core products of pharmaceutical preparations include cerebro-cardiovascular medicines, ophthalmic drops and gel, antipyretic and analgesic medicines, etc. The major products for pharmaceutical intermediates and specialized raw materials include steroid hormones, amino acids and anti-bacterial and antibiotics products, etc., and our healthcare core products include taurine, etc. The Group commits to expand business through self-expansion and acquisition of related medical assets in order to maintain relatively high growth rate, and it also aims to become one of the largest pharmaceutical manufacturers of pharmaceutical and healthcare products in the PRC.

For the year ended 31 December 2011, the following events have taken place:

(1) In May 2011, Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")(the Company owned 67% of its equity interest) set up Jiangsu Grand Xianle Pharmaceutical Company Limited ("Jiangsu Xianle"). Once Jiangsu Xianle completes its plant construction, it will focus on the research and development of new species of steroid hormones intermediates, and it may significantly enhance the production capacity and improve the quality of our current steroid hormones product series. This can also allow us to actively seek ways for achieving international certification of our products and thus improve the profitability of the Group.

(2) In September 2011, Grand Pharm (China) Company Limited ("Grand Pharm (China)"), an indirect non-wholly-owned subsidiary of the Group, signed a sale and purchase agreement to acquire approximately 81% equity interest of Wuhan Kernel Bio Tech Company Limited ("Wuhan Kernel"). According to the PRC national economic and social development "Twelfth-five" Plan as well as the scientific and technological development "Twelfth-five" Plan, they all stated that biotechnology is an emerging market and should provide support to this market. The Group has a long-term strategic vision and has actively followed the national policy through merger and acquisition to enter into the biotechnology field. Wuhan Kernel is mainly engaged in research & development in biotechnology, manufacturing and sales of bio-pesticides and bio-additives products, etc. Its technology is at international standard, and it owns the facilities for fermentation and expertises in biological enzymatic technology. The Group expects Wuhan Kernel could provide a platform for good testing, new product innovation and commercial production to the Group for the development of amino acids products. It is also expected that it can allow us to obtain technical advantages in bio-enzyme field and result synergy effects, and thus enhance the quality of products, enlarge the production capacity, reduce the production costs, and result a fruitful return to the Group. The transaction was completed in November 2011, and Wuhan Kernel became an indirect non wholly-owned subsidiary of the Company.

Turnover

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK$1,647,576,000 (2010: HK$1,054,754,000) which represented an increase of approximately 56% as compared with last year. The gross profit margin of this year was approximately 31.3%, while it was approximately 35.5% in last year. This was mainly due to approximately of 30% increment of the turnover of pharmaceutical raw materials and intermediates, while the gross profit margin of these products was relatively lower in compare with pharmaceutical preparations. The profit attributable to the owners of the Company of this year was approximately HK$54,235,000, which recorded an increment of approximately 31% in compare with the profit attributable to the owners of the Company of last year, which was approximately HK$41,555,000 after excluding the one-off relocation compensation and non-operating income and expenses.

Management Discussion and Analysis

In 2010, the Group acquired equity interests of three subsidiaries, which were Hubei Grand Everyday Bright Eyes Company Limited ("Hubei Grand EBE"), which is principally engaged in sales and manufacturing of ophthalmic medicines; Zhejiang Xianle, which is principally engaged in sales and manufacturing of steroid hormones and Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi"), which is principally engaged in sales and manufacturing of agrochemical and fine chemicals. These three subsidiaries have also brought financial contribution to the Group and developed a strong synergy effect among the products and technology, which in turn help the Group to enhance its products quality, turnover and profits.

Pharmaceutical Preparations

The pharmaceutical preparations are the major sources of profit. In 2011, the turnover of pharmaceutical preparations was RMB425.21 million, and its gross profit margin was approximately 63% compared with 59% in previous year which represented a substantial increment. Core products of pharmaceutical preparations include cerebro-cardiovascular, ophthalmic, antibacterial and antibiotics medicines, etc.

- ***Cerebro-cardiovascular medicines***

  The cerebro-cardiovascular medicines of the Group is one of the dominate medicines in the market. Such products are mainly used in first-aid purpose. Its core products include "Tirofiben", which in 2011 the Group sold over 240,000 units and contributed approximately RMB63.1 million turnover to the Group and was approximately 14% increment in compare with the previous year. Other major cerebro-cardiovascular medicines of the Group like Adrenaline Bitartrate and Noradrealine Bitartrate had turnover of approximately RMB30.95 million and RMB20.33 million respectively.

- ***Ophthalmic medicines***

  Since the completion of acquiring Hubei Grand EBE in May 2010, the Group has become one of the ophthalmic medicine manufacturers with advanced technology, wide product range and the largest production scale in the PRC, and it became one of the major business growing points in pharmaceutical preparations business of the Group. The Group totally sold approximately RMB116.43 million of ophthalmic medicines in 2011, which was increased by approximately 47% when compared with that of the previous year. Apart from the market leader in the PRC "Bai Nei Ting", the Group also put effort on exploring other ophthalmic medicines, such as anti-visual fatigue "Polyvinyl Alcohol Eye Drops" and anti-infectious "Levofloxacin Hydrochloride" eye gel. The turnover of "Polyvinyl Alcohol Eye Drops" was approximately RMB14.73 million which recorded approximately 2.6 times increment in compare with 2010. "Levofloxacine Hydrochloride" eye gel contributed approximately RMB21.12 million turnover to the Group which recorded approximately 1.7 times increment in compare with 2010.

- ***Antibacterial and antibiotics***

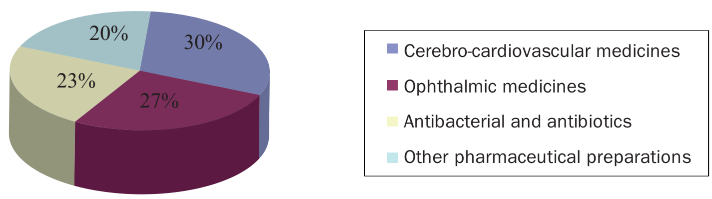
  "Metronidazole" and "Enoxacin" produced by the Group also played as leading roles in the PRC pharmaceutical market. During this fiscal year, the turnover of Metronidazole was approximately RMB25.54 million, which included both tablets and injection agents. Its increment in compare with the previous year was approximately 3%, and its gross profit margin also recorded a significant increment from 21% in 2010 to 32%, since we can fulfill the market demands of variety of packaging. Due to the changes of regulations regarding the application of antibiotics by the competent department of the pharmaceutical, it triggered a relatively large fluctuation of market prices and market structure and thus affected the sales result of "Enoxacin" and its related products of the Group. In 2010, its turnover amount was approximately RMB60.16 million, while it recorded a slight decrease to approximately RMB49.37 million this year. Although the turnover amount decreased, the Group still actively devoted resources into technology research, enhancement of product quality and optimization of product structure, which may lead the Group to record a surge in its gross profit margin during this year.

Management Discussion and Analysis

- ***Other Pharmaceutical preparations***

The turnover of other pharmaceutical preparations remained stable in this year. Both tablet and injection agents of “Analgin”, which are classified as antipyretics and analgesic medicine, also recorded a reduction in turnover amount due to the economy downturn of oversea countries. The turnover amount decreased from approximately RMB39.49 million in 2010 to approximately RMB28.18 million in this year. However, the Group was actively seeking for emerging markets, and “Analgin” has successfully launched in Africa, South America and other developing countries and is expected to provide positive contribution to the Group in the coming years.

The turnover amount of major pharmaceutical preparations in this year is shown as below:



Pharmaceutical intermediates

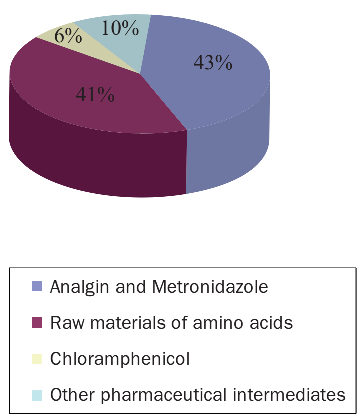
The pharmaceutical intermediates manufactured and sold by the Group mainly include “Analgin”, “Metronidazole”, “Chloramphenicol” and other amino acids intermediates. In 2011, the Group has sold approximately RMB494.15 million pharmaceutical intermediates to domestic and overseas customers, and achieved gross profit of approximately RMB85.22 million.

- ***Analgin and Metronidazole***

The Group is one of the largest manufacturers of “Analgin” and “Metronidazole” in the PRC, and we also export these products to countries in South America and Southeast Asia. Turnover of “Analgin” during this year was approximately RMB178.92 million, which was increased by approximately 8% in compare with previous year. “Metronidazole” recorded approximately RMB34.82 million turnover this year, which had a similar figure as last year.

“Chloramphenicol” is one of the main pharmaceutical raw materials of antibiotics. Turnover of “Chlorampnenicol” this year was approximately RMB30.91 million, while it was approximately RMB16.01 million last year, and the growth rate was approximately 93%.

The turnover amount of major pharmaceutical intermediates in this year is shown as below:



- ***Amino acids and its intermediates***

The Group is one of the largest manufacturers of producing and sales of amino acids and its intermediates in the PRC. The core products include “Acetyl Cysteine” series. These are manufactured and sold by Wuhan Grand Hoyo Company Limited (“Wuhan Grand Hoyo”), which the Group acquired additional interest of Wuhan Grand Hoyo in March and December 2010 and effectively owns 45.97% equity interest. Since the completion of the acquisition, the management has strengthened the operation management and explored more new markets. The overall turnover in 2011 was approximately RMB200.33 million which was increased by approximately 14% in compare with 2010. Wuhan Grand Hoyo focuses on the quality of its products, and its core product “Acetyl Cysteine” was certified by the Europe EDQM of the COS certification in October 2011, and it also became one of the largest exporters of “Acetyl Cysteine” in the PRC.

Management Discussion and Analysis

Steroid Hormones and its intermediates

After the completion of acquisition of Zhejiang Xianle in October 2010, the Group obtained the competence of manufacturing and sales of steroid hormones and became one of the few steroid hormones raw materials manufacturers in the PRC. The production techniques and quality of products are the superiority of Zhejiang Xianle. Recently, one of its core products has passed the quality assurance test of Europe EDQM, and successfully received Europe COS certification. These incidents have upgraded the product grading and consolidated the foundation of obtaining orders from international high-end customers. In 2011, the turnover of the Group in steroid hormones was approximately RMB186.07 million, which was increased by approximately 10% in compare with last year. The steroid hormones intermediates sold by the Group mainly include glucocorticoid and sex hormones. The Group has sensed the increasing demand of steroid hormones in medical treatment field and market, and it has already taken precaution with proactively attitude to fulfill such demands. In 2011, "Jiangsu Xianle" has already commenced new plant construction and addition of product lines to expand the production capacity, increase the production facilities for new products and enhance the production technology, in order to stimulate rapid growth of the Group.

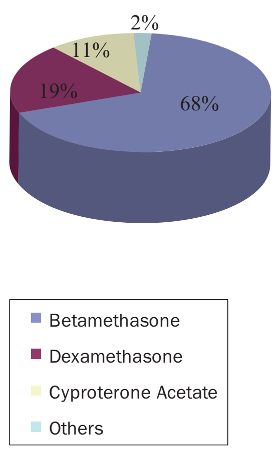
- ***Glucocorticoid***

  The glococorticoid sold by the Group include "Betamethasone" and "Dexamethasone", which are the pharmaceutical raw materials for anti-inflammatory and anti-allergic medicines. The "Betamethasone" is currently staying at leading position in the PRC. The turnover of "Betamethasone" series was recorded as approximately RMB125.42 million during this year, which was increased by approximately 13% in compare with previous year. The turnover of "Dexamethasone" was approximately RMB35.55 million, which was increased by approximately 11% in compare with previous year.

- ***Sex Hormones***

  "Cyproterone Acetate" is one of the core products of the Group in sex hormones product series. It is male hormones used in treatment for prostate cancer and benign prostatic hyperplasia diseases. In 2011, the turnover was approximately RMB20.64 million, and the sales volume was approximately 3,175kg. Achieving sustainable and steady growth is the long term goal of Zhejiang Xianle. In order to cope with the demands from markets and future development, the Group has added new product lines in Zhejiang Xianle during the year and thus enlarged the production capacity.

The turnover amount of major products of steroid hormones in this year is shown as below:



Management Discussion and Analysis

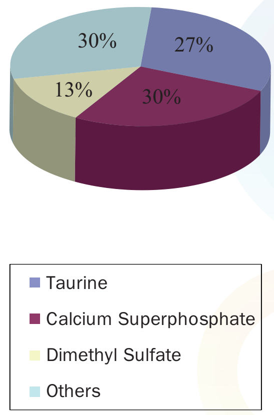
Healthcare and chemical products

Hubei Fuchi became a subsidiary of the Group since June 2010, and it is mainly engaged in production and sales of healthcare products, chemical medicines and agrochemicals including "Taurine", "Calcium Superphosphate" and "Dimethyl Sulfate", etc. In 2011, the turnover of these products of the Group was approximately RMB269.60 million, and its gross profit was approximately RMB37.07 million.

- ***Taurine***

"Taurine" is one of the main ingredients in energy drinks. Western countries literatures stated that "Taurine" plays an important role in brain function and development, and it could also increase growth rate and maintenance rate of neurons and helps function and development of skeletal muscles, retina and central nervous system. The Group is one of the market leaders of, and also one of the largest exporters of "Taurine" in the PRC. The Group completed several production technology enhancement projects during 2011 and thus improve yield and quality of products which resulted a growing number of high-end customers. In 2011, the Group sold approximately RMB72.72 million of "Taurine", which increased over 80% compared with previous year.

The turnover amount of major products of healthcare products and fine chemicals in this year is shown as below:



- ***Calcium Superphosphate and Dimethyl Sulfate***

"Calcium Superphosphate" is agrochemicals, and the product of the Group is one of the well-known brands in the PRC. "Dimethyl Sulfate" can be used as fine chemicals in various pharmaceutical productions, and it is an essential raw material to some of the product manufactured by the Group. The Group ranked at top 3 manufacturers of these products in the PRC. Due to the demand changes of the market, the turnover of "Calcium Superphosphate" and "Dimethyl Sulfate" were approximately RMB79.81 million and RMB36.32 million respectively, which were slightly decreased by approximately RMB4 million and RMB8 million respectively in compare with last year.

Distribution costs

Distribution costs of this year were approximately HK$261.91 million, which were increased by approximately HK$53.97 million in compare with previous year. The turnover of this year increased by approximately 56% and thus resulted increment of the distribution costs. Since the Group acquired several new subsidiaries in last year, the overall product pool has been expanded. In order to coordinate with the existing products, this year the Group has contributed more resources in promoting these new products such as television and newspaper advertisements and thus boost the market share of our products.

Administrative expenses

For the year ended 31 December 2011, the administrative expenses of the Group were approximately HK$205.91 million while there were approximately HK$121.97 million in last year. The increment was mainly due to the Group has entered a few acquisition in 2010 in order to expand the size of the Group. In order to maintain the daily operation and expand the business scope of these new subsidiaries, the Group additionally used approximately HK$52.83 million in 2011.

Management Discussion and Analysis

Finance costs

The finance costs were approximately HK$26.41 million in this year, which were decreased by approximately 49% as compared with 2010. This was mainly due to the Group has fully converted the convertible bond and repaid the promissory note in 2010, and we also adjusted the combination of bank loans in order to substantially reduce the finance costs.

Relocation progress of manufacturing plants of Grand Pharm (China)

At the end of 2010, Grand Pharm (China) entered into the resumption and relocation compensation agreement with 武漢市礄口區土地儲備事務中心 (the "Land Reserve Center") and will receive a relocation compensation amounts to RMB855,000,000. Grand Pharm (China) will fully utilize the compensation by constructing new production plants and acquire new production facilities to enhance manufacturing efficiency, product quality and production capacity.

The new plant will be gradually constructed in the following four territories in accordance with the product production plan: 1. Wuhan Jin Yin Hu (production base of pharmaceutical preparations including Cerebro-cardiovascular medicines, etc., excluding Everyday Bright Eyes); 2. Huang Shi Yang Xin Xian (production base of pharmaceutical raw materials and intermediates); 3. Hubei Grand EBE (production base of ophthalmic medicines); and 4. Jiangsu Xianle (production base of pharmaceutical used steroid hormones and its intermediates). Currently, the construction plan and design of all four territories have been completed, in which the construction is running smoothly and progresses are within schedule. The construction of major plants at Wuhan Jin Yin Hu territory, such as pharmaceutical preparations building, solid production building and liquid production building, etc. had already completed, and it is about to enter into substantive relocation stage. The foundation work of the production base of pharmaceutical raw material and intermediates at Huang Shi Yang Xin Xian has completed and the relocation of production facilities will take place progressively. Currently, the test-run of a few products such as Taurine and Analgin are in progress, and the new production plant of Hubei Grand EBE has completed and the newly added production lines are under installation and testing. The construction of new plant at Jiangsu Xianle has already launched, and it is expected that it can enhance the production capacity of steroid hormones and also reduce the production cost, which may in turn improve the gross profit level of the Group in related to such product kind.

These four major plants which are currently under construction will become an important foundation for the future development of the Group. The implementation of new production bases and facilities could enlarge production capacity and also lead production facilities to achieve international high-end quality certification. Furthermore, it may also lead the members of the Group to reform their technology and the advanced facilities may also enhance the product quality and production efficiency and thus reduce production cost. These plants will also become a good production facility for the new products which are currently at the research and development stage. It is believed that the completion of the production base and the commencement of production would bring a leap forward of turnover and profitability of the Group.

Prospects

For the market scope, IMS Health applied their unique marketing forecasts methodology and predictive ability, and divided the emerging market into three segments. In 2006, 7 countries were classified as the emerging markets, including the PRC, Brazil, Mexico, India, Russia, Korea and Turkey; up to now, it has increased to 17 countries. The GDP of the PRC has already over USD8 trillion, and IMS Health forecasted that the pharmaceutical market of the PRC would spring up to the third in the world in 2011, from the eighth position in 2006. Quote from a Vice President of IMS Health, "The global pharmaceutical industry formed a new pattern due to the fast pace of growth of market share in emerging markets. Under all these changes, the PRC will become an independent segment." The compound annual growth rate of the PRC pharmaceutical market will increase in a rapid way in compare with the global average level, and the market position of the PRC will spring from the current ranked at the third and take over Japan to become the second in the world by 2013.

For the product structure, the chief consultant of the PRC market in IMS Health suggested that, from 2011 onwards, the expiry of patent in global pharmaceutical market will reach the peak period, and may change the trend into generic market. Currently, generic drugs still dominate the market in the PRC. The ratio of generic drugs and patent drugs are 75% to 25% in the whole market share. Manufacturing and sales of generic drugs by the PRC local pharmaceutical manufactures still occupy a large proportion of the whole market share. The main business model will continue to be leaded by branded drugs.

Management Discussion and Analysis

For the pharmaceutical raw materials market, the PRC would possess an irreplaceable advantage from patent drugs that they are reaching peak period of patent expiries, such as benefit to technology, the PRC domestic market and local raw materials, etc. As a result, the pharmaceutical markets in the PRC may have new business opportunities in the research and development, sales and manufacturing of pharmaceutical raw materials and intermediates markets. For the manufacturing and production processes of international and distinguishable new pharmaceutical raw materials, companies should be more focused on whether production methodology, standard of production facilities and quality of products meet the international standard, etc., which may be critical for enterprises to obtain market shares.

The reformation of the PRC pharmaceutical industry is currently under progress in full swing mode. However, two problems are found, in which it is difficult to seek for professional medical advises and also the medication is expensive. The PRC Government is proactively and financially to disseminate medical insurance and expand the medical insurance payment ratio problems, and these are now generally eased. The public hospitals are still under progress of the reformation of "segregation in operation and management" and "separation of prescribing from dispensing" and "drug distribution model". For the pharmaceutical manufacturers, the market policy, especially the changes of products prices, may always be challenges. The PRC is currently facing economy transformation from quantity economy to quality economy. As a pharmaceutical manufacturer, innovation and reformation become essential survival factors rather than just a factor of enterprise development.

In order to adapt the characteristics of the PRC pharmaceutical market, maintaining business moving in a stable and high speed development are required, and the Group thus adopts "Two Fronts" as business model and "Two Acids" as business strategy.

The definition of "Two Fronts" of product structure means apart from developing the core pharmaceutical preparations products, it also requires to strongly capture the development opportunities of pharmaceutical intermediates and pharmaceutical raw materials is also important. For the pharmaceutical preparations segment, the Group treats research and technological innovation as precursor, and it will vigorously develop cerebro-cardiovascular emergency medicines and individual packages of ophthalmic products with preservative-free characteristics. Also, it will actively involve in and support the research and development of anticancer product in order to enhance the proportion of pharmaceutical preparations products in the overall sales revenue and gross margin level. The Group may also maintain and consolidate the leading position in domestic and international markets for the characteristics of some pharmaceutical raw materials and intermediates. The Group will focus on four areas, which are following the international new trend of pharmaceutical raw materials, traditional pharmaceutical raw materials, food additives and fine chemicals. We will construct advanced manufacturing industrial base and maintain products which can provide hundred million RMB of turnover from one single product. We will focus on research and development in order to obtain core competitiveness with pioneer technology, strong bargaining power and sustainable profitability. More importantly, the PRC participates a very important role in the global steroid hormones sector, and only several companies could seize the complexity of production technology. Hence the PRC still has a large room of development in this sector. The Group will fully utilize the current significant market position and its bargaining power in the domestic and overseas steroid hormones area for the introduction of advanced technology in biotechnology, access to high-end international certification and improve the profitability of the business in order to lead the Group to enter into the global leading steroid hormones production business at a rapid way.

The definition of "Two Acids" strategy is based on the development of human pharmaceutical and healthcare trends, the Group will focus on research and development, manufacture and sale of amino acid series, and may actively penetrate and develop the downstream preparations, especially in Taurine and Acetyl Cysteine and its intermediates which are current placed as one of the global market leader positions. The Group may focus on research and development, manufacturing and sales of these products, and make use of biotechnology innovation and enhancement of production capacity in order to increase the product quality and efficiency and obtain international certificates. We may also actively expand the pharmaceutical preparations business and surge up the profitability of the Group.

Apart from making investment in research and development, the Group also recruits professional and technical staffs aggressively. The Group will rely on our research and development professionals to closely focus on our existing products and its related medical segment and function to explore new products for the future. The research and development of new products will mainly cooperate with national drug research institutes, and also be supported by acquisition of other related enterprise assets and product patents with caution and progressiveness. Meanwhile, the Group would strengthen the manufacturing facilities and transformation processes in order to enhance the existing production efficiency and qualities, and aim to launch at least two new raw material and pharmaceutical preparations products to the market and obtain certificates or production approvals to convey new blood into the Group's product catalog.

Management Discussion and Analysis

For marketing and promotion, as prescription drugs, the Group will continue to mainly rely on our professional medical representatives as core marketing strategy while retailing and the third distribution channel would fill up the remaining part of the whole marketing strategy. The Group may also expand the sales networks in second and third tier cities. Meanwhile, we will progressively launch over-the-counter medicines into retail market, and gradually strengthen our famous brand, such as "Everyday Bright Eyes", to enhance the respectful and trustworthily corporate image of "China Grand" to the public.

The Group will pay close attention to comprehend the market changes and development direction of both the PRC domestic and international markets. We will fully utilize the opportunities of relocating certain subsidiaries and reorganize product structures to broaden core products production capacities. Base on the existing products, human resources and production facilities, we can handle and deal with the problems occurred in the relocation processes carefully. In the meanwhile, the Group may strengthen the existing enterprise and product competitiveness, maintain current market position, actively explore, capture and develop potential market opportunities; striving for becoming one of the leading enterprises in the PRC pharmaceutical market in the forthcoming five years, and becoming one of the fastest growing pharmaceutical companies in Hong Kong capital market.

Financial resources and liquidity

As at 31 December 2011, the Group had current assets of HK$1,087,425,000 (31 December 2010: HK$828,941,000) and current liabilities of HK$1,030,797,000 (31 December 2010: HK$636,507,000). The current ratio was 1.05 at 31 December 2011 as compared with 1.3 at 31 December 2010.

The Group's cash and bank balances as at 31 December 2011 amounted to HK$343,348,000 (31 December 2010: HK$306,999,000), of which 7% were denominated in Hong Kong and United States Dollars and 93% in Renminbi.

As at 31 December 2011, the Group had outstanding bank loans of HK$732,065,000 (31 December 2010: HK$346,717,000). Included in the bank loans, there was a bank loan of approximately HK$95,778,000 which was denominated in US$. All other bank loans are denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.5% to 7.22% (for the year ended 31 December 2010: 0.59% to 5.56%) per annum. These bank loans were pledged by assets of the Group with a net book value of HK$189,047,000 (31 December 2010: HK$98,138,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 115% at 31 December 2011 as compared with 61% at 31 December 2010.

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

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2011, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Employees and remuneration policy

As at 31 December 2011, the Group employed about 3,700 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS

Grand Pharm (China) entered into an agreement to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Subsequent Events" in this report, the Group had an authorized but not provided for capital expenditure commitments of approximately HK$178.4 million in respect of acquisition of non-current assets as at 31 December 2011.

SUBSEQUENT EVENTS

Pursuant to the acquisition agreement signed on 14 February 2012, China Grand Pharmaceutical (Hong Kong) Limited ("China Grand (Hong Kong)"), an indirectly wholly-owned subsidiary of the Company, has agreed to purchase and an independent third party agreed to sell 2.28% equity interest in Grand Pharm (China) at approximately HK$11.9 million (approximately RMB9.7 million) (the "Grand Pharm (China) Acquisition"). After completion of the Grand Pharm (China) Acquisition, China Grand (Hong Kong) will effectively own 75.95% equity interest in Grand Pharm (China).

Pursuant to the subscription agreement signed on 14 February 2012, the Company agreed to issue 41,240,000 new subscription shares to an independent third party at HK$0.333 per subscription share ("Subscription"). The subscription shares represent, in aggregate, (i) approximately 2.15% of the existing issued share capital of the Company; and (ii) approximately 2.10% of the issued share capital of the Company as enlarged by the Subscription and the allotment and issue of the subscription shares as a result of the Subscription.

CONTINGENT LIABILITIES

The Group's had no significant contingent liabilities at 31 December 2011.

APPRECIATION

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

Liu Chengwei
Chairman

Hong Kong, 29 March 2012

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Liu Chengwei, aged 38, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Grand Pharm (China), the principal subsidiary of the Company. Mr Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr Liu worked for General Electric Company's China subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from Peking University and a master's degree in Business Administration from China Europe International Business School.

Mr Hu Bo, aged 27, was appointed executive director of the Company in July 2008. Mr Hu has over 5 years of experience in network project management and property management. Mr Hu is currently the deputy general manager of a real estate company in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr Shao Yan, aged 49, was appointed executive director of the Company in October 2008. Dr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr Shao has over 20 years of experience in corporate management and venture capital investment. Dr Shao holds a master's degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr Zhang Ji, aged 50, was appointed non-executive director of the Company in November 2008 and was redesignated as executive director of the Company in February 2010. Dr Zhang has over 16 years of experience in conducting drug discovery, research and development in the US pharmaceutical industry. Dr Zhang is currently the General Manager of the R&D centre of the management head quarter of the China Grand. Dr Zhang worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years before joining China Grand in 2008. Dr Zhang holds both a bachelor degree in Microbiology and a master's degree in Virology from Wuhan University, and a doctor degree (PhD) in Pharmacology and Molecular Biology from Chicago Medical School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie, aged 49, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 55, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 20 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr Pei Geng, aged 53, was appointed independent non-executive director of the Company in May 2011. Dr Pei holds a bachelor degree in Medicine and clinically became a medical doctor after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr Foo Tin Chung, Victor, aged 43, joined the Company in September 2011 as the Company Secretary of the Company. Mr Foo holds a bachelor's degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is an executive director of Jinheng Automotive Safety Technology Holdings Limited and an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, which both companies are listed on the Stock Exchange.

Mr. Xie Guofan, aged 61, was appointed as the director of the principal subsidiary Grand Pharm (China) since 1994. Mr. Xie is responsible for overseeing entire operations and management of Grand Pharm (China), he has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr. Xie holds a practicing pharmacist license in the PRC.

Mr. Shi Xiaofeng, aged 45, was appointed as General Manager of the principal subsidiary Grand Pharm (China). Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), he has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and degree at China Europe International Business School.

Mr. Ye Bo, aged 52, was appointed as the director of Zhejiang Xianle. Mr. Ye is responsible for overseeing the entire operation management of Zhejiang Xianle.

Mr. Feng Yonghua, aged 44, was appointed as the General Manager of Zhejiang Xianle. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle., he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2011, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE REPORT

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

BOARD OF DIRECTORS

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

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

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

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

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

Corporate Governance Report

AUDIT COMMITTEE

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

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

The audit committee held two meetings during the year ended 31 December 2011 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

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

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

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2011 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

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

Corporate Governance Report

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES MEETINGS

	Meetings Attended/Held		
Directors	Board	Audit Committee	Remuneration Committee
Mr Liu Chengwei	4/4	N/A	2/2
Mr Hu Bo	4/4	N/A	N/A
Dr Shao Yan	4/4	N/A	N/A
Dr Zhang Ji	4/4	N/A	N/A
Ms So Tosi Wan, Winnie	4/4	2/2	2/2
Mr Lo Kai, Lawrence	4/4	2/2	2/2
Mr Xin Dongsheng (resigned on 12 May 2011)	2/2	1/1	N/A
Dr Pei Geng (appointed on 12 May 2011)	2/2	1/1	N/A

AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK$1,880,000.

FINANCIAL REPORTING

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

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

Report of the Directors

The directors are pleased to present their report together with the audited consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 43 and 18 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out on pages 26 to 99.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil). No interim dividend was declared during the year (2010: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 43 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2011 are set out in notes 43 and 18 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS

Particulars of bank loans of the Group during the year are set out in note 31 to the consolidated financial statements.

Report of the Directors

DIRECTORS

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

Executive directors

Mr Liu Chengwei
Mr Hu Bo
Dr Shao Yan
Dr Zhang Ji

Independent non-executive directors

Ms So Tosi Wan, Winnie	
Mr Lo Kai, Lawrence	
Mr Xin Dongsheng	(resigned on 12 May 2011)
Dr Pei Geng	(appointed on 12 May 2011)

Pursuant to bye-law 87(1), Mr Liu Chengwei, Dr Shao Yan and Dr Zhang Ji will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTEREST

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

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2011, the related party transactions entered by the Group are all disclosed in note 38 of the financial statements and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as the financial guarantee provided by China Grand to banks in respect of the loans granted to the Group stated in note 38 which is a connected transaction exempted from the reporting, announcement and independent shareholders' approval under Chapter 14A of the listing rules, there were no other discloseable non-exempted connected transactions under the Listing Rules.

SHARE OPTION SCHEME

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

No share options were granted or exercised under the share option scheme during the year ended 31 December 2011 and there were no outstanding share options as at 31 December 2011.

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

As at 31 December 2011, the directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	1,000,000	0.05%

Note: Dr Shao Yan, a director of the Company, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr Shao Yan shall be deemed to be interested in such 1,000,000 Shares.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	1,225,235,094	63.79%
Mr Hu Kaijun (Note)	1,225,235,094	63.79%

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

Report of the Directors

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the five largest customers of the Group accounted for less than 30% of the Group's total turnover while the five largest suppliers accounted for less than 30% the Group's total purchases.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2011.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 18 to 20.

AUDITORS

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

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 29 March 2012

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 CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 99, which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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 an audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affair of the Group as at 31 December 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
29 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**1,647,576**	1,054,754
Cost of sales		**(1,132,477)**	(679,947)
Gross profit		**515,099**	374,807
Other income	8	**78,429**	140,775
Distribution costs		**(261,906)**	(207,939)
Administrative expenses		**(205,911)**	(121,967)
Other operating expenses	9	**(346)**	(330)
Gain on bargain purchase	37	**–**	21,631
Share of results of associates	18	**504**	3,149
Finance costs	10	**(26,405)**	(51,960)
Profit before tax		**99,464**	158,166
Income tax expense	11	**(12,793)**	(3,889)
Profit for the year	12	**86,671**	154,277
Other comprehensive income			
Exchange difference on translation of foreign operations		**24,381**	20,669
Change in fair value of available-for-sale financial assets, after tax		**(3,844)**	3,746
Other comprehensive income for the year		**20,537**	24,415
Total comprehensive income for the year		**107,208**	178,692
Profit for the year attributable to:			
– Owners of the Company		**54,235**	97,973
– Non-controlling interests		**32,436**	56,304
		86,671	154,277
Total comprehensive income attributable to:			
– Owners of the Company		**70,963**	118,435
– Non-controlling interests		**36,245**	60,257
		107,208	178,692
Earnings per share	14		
Basic (HK cents)		**2.82**	6.63
Diluted (HK cents)		**2.82**	6.62

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**726,068**	450,918
Prepaid lease payments	17	**365,228**	246,114
Interests in associates	18	**8,469**	5,076
Available-for-sale financial assets	19	**51,737**	35,055
Deposits for acquisition of non-current assets	20	**74,680**	42,444
Goodwill	21	**72,037**	54,944
Intangible assets	22	**649**	958
Deferred tax assets	23	**3,623**	2,221
Prepayments	24	**23,984**	20,415
Loan receivables	25	**17,247**	–
		1,343,722	858,145
Current assets			
Inventories	26	**319,163**	216,168
Trade and other receivables	27	**341,280**	246,405
Loan receivables	25	**7,392**	–
Prepaid lease payments – current portion	17	**9,303**	6,677
Pledged bank deposits	28	**66,939**	52,692
Bank balances and cash	28	**343,348**	306,999
		1,087,425	828,941
Current liabilities			
Trade and other payables	29	**300,695**	294,544
Financial guarantee liabilities	30	**–**	427
Bank borrowings	31	**695,231**	306,717
Tax payable		**34,871**	34,819
		1,030,797	636,507
Net current assets		**56,628**	192,434
Total assets less current liabilities		**1,400,350**	1,050,579
Non-current liabilities			
Bank borrowings	31	**36,834**	40,000
Deferred tax liabilities	32	**82,816**	67,621
Amount due to holding company	33	**12,656**	12,580
Deferred income	34	**298,125**	83,529
		430,431	203,730
Net assets		**969,919**	846,849

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	35	**19,208**	19,208
Reserves		**619,970**	548,578
Equity attributable to owners of the Company		**639,178**	567,786
Non-controlling interests		**330,741**	279,063
Total equity		**969,919**	846,849

The consolidated financial statements on pages 26 to 99 were approved and authorised for issue by the board of directors of the Company on 29 March 2012 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Share capital HK$'000	Share premium HK$'000	Convertible bond reserve HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (note (a))	Safety fund reserve HK$'000 (note (b))	Translation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Other reserve HK$'000 (note (c))	(Accumulated losses)/ retained profits HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010		10,739	94,457	3,256	-	6,099	-	(146)	3,151	-	(80,009)	37,547	98,149	135,696
Profit for the year		-	-	-	-	-	-	-	-	-	97,973	97,973	56,304	154,277
Other comprehensive income for the year:														
Exchange difference on translation of foreign operations		-	-	-	-	-	-	17,702	-	-	-	17,702	2,967	20,669
Change in fair value of available-for-sale financial assets		-	-	-	-	-	-	-	3,680	-	-	3,680	1,315	4,995
Income tax relating to change in fair value of available-for-sale financial assets		-	-	-	-	-	-	-	(920)	-	-	(920)	(329)	(1,249)
Total comprehensive income for the year		-	-	-	-	-	-	17,702	2,760	-	97,973	118,435	60,257	178,692
Placing of shares		2,000	84,360	-	-	-	-	-	-	-	-	86,360	-	86,360
Issue of shares on conversion of convertible bonds		1,667	51,589	(3,256)	-	-	-	-	-	-	-	50,000	-	50,000
Share premium reduction		-	(230,406)	-	121,273	-	-	-	-	-	109,133	-	-	-
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	27,347	27,347
Arising from deemed acquisition of non-controlling interests		-	-	-	-	-	-	-	-	7,497	-	7,497	(7,497)	-
Acquisition of additional interest in subsidiaries		-	-	-	-	-	-	-	-	(5,483)	-	(5,483)	(21,721)	(27,204)
Non-controlling interests arising on the acquisition of subsidiaries	37	-	-	-	-	-	-	-	-	-	-	-	122,528	122,528
Issue of shares through open offer		4,802	268,628	-	-	-	-	-	-	-	-	273,430	-	273,430
Transfer		-	-	-	-	2,401	1,482	-	-	-	(3,883)	-	-	-
At 31 December 2010		19,208	268,628	-	121,273	8,500	1,482	17,556	5,911	2,014	123,214	567,786	279,063	846,849
At 1 January 2011		19,208	268,628	-	121,273	8,500	1,482	17,556	5,911	2,014	123,214	567,786	279,063	846,849
Profit for the year		-	-	-	-	-	-	-	-	-	54,235	54,235	32,436	86,671
Other comprehensive income for the year:														
Exchange difference on translation of foreign operations		-	-	-	-	-	-	19,560	-	-	-	19,560	4,821	24,381
Change in fair value of available-for-sale financial assets		-	-	-	-	-	-	-	(3,776)	-	-	(3,776)	(1,350)	(5,126)
Income tax relating to change in fair value of available-for-sale financial assets		-	-	-	-	-	-	-	944	-	-	944	338	1,282
Total comprehensive income for the year		-	-	-	-	-	-	19,560	(2,832)	-	54,235	70,963	36,245	107,208
Acquisition of additional interest in a subsidiary		-	-	-	-	-	-	-	-	7	-	7	(6,447)	(6,440)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(3,076)	(3,076)
Arising from deemed acquisition of non-controlling interests		-	-	-	-	-	-	-	-	422	-	422	(422)	-
Non-controlling interest arising on the acquisition of a subsidiary	37	-	-	-	-	-	-	-	-	-	-	-	25,378	25,378
Transfer		-	-	-	-	8,301	3,351	-	-	-	(11,652)	-	-	-
At 31 December 2011		19,208	268,628	-	121,273	16,801	4,833	37,116	3,079	2,443	165,797	639,178	330,741	969,919

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Notes:

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
Profit before tax	**99,464**	158,166
Adjustments for:		
Amortisation of intangible assets	**346**	330
Amortisation of prepaid lease payments	**6,722**	5,927
Depreciation of property, plant and equipment	**45,669**	29,429
Dividend income from equity investments	**(325)**	–
Finance costs	**26,405**	51,960
(Gain) loss on disposal of property, plant and equipment	**(3,964)**	1,526
Write-off of property, plant and equipment	**8,008**	–
Gain on bargain purchase	**–**	(21,631)
Compensation for write-off of property, plant and equipment	**(10,058)**	–
Gain recognised on re-measuring interest in an associate to fair value on business combination date	**–**	(2,648)
Impairment loss on inventories	**1,297**	961
Impairment loss on trade and other receivables	**2,605**	2,682
Bank interest income	**(4,837)**	(2,866)
Reversal of impairment loss on trade and other receivables	**(463)**	(200)
Share of results of associates	**(504)**	(3,149)
Investment income	**(1,865)**	–
Write-back of financial guarantee liabilities	**(427)**	–
Operating cash flows before movements in working capital	**168,073**	220,487
Increase in inventories	**(84,109)**	(35,169)
(Increase) decrease in trade and other receivables	**(24,821)**	40,852
Decrease in trade and other payables	**(32,224)**	(31,371)
Net cash generated from operations	**26,919**	194,799
Income tax paid	**(15,225)**	(10,700)
Net cash generated from operating activities	**11,694**	184,099

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(271,824)**	(50,605)
Acquisition of prepaid lease payment		**(15,483)**	–
Acquisition of non-controlling interests		**–**	(27,204)
Increase in pledged bank deposits		**(11,763)**	(42,103)
Increase in deposits for acquisition of non-current assets		**(61,549)**	(42,444)
Increase in non-current prepayments		**(2,608)**	(20,415)
Proceeds from disposal of property, plant and equipment		**5,880**	2,406
Compensation for write-off of property, plant and equipment		**10,058**	–
Bank interest income received		**4,837**	2,866
Investment income		**1,865**	–
Acquisition of available-for-sale financial assets		**(20,216)**	–
Dividend income received from available-for-sale financial assets		**325**	–
Receipts of deferred income		**210,659**	83,529
Increase in loan receivable		**(24,639)**	–
Net cash outflow from acquisition of subsidiaries	37	**(113,625)**	(286,620)
Net cash used in investing activities		**(288,083)**	(380,590)
Financing activities			
Repayments of bank loans		**(618,272)**	(460,726)
Interest paid		**(26,405)**	(19,946)
Bank loans raised, net		**987,895**	690,977
Advance (repayment to) from holding company		**76**	(9,649)
Proceeds from issue of new ordinary shares		**–**	359,790
Capital contribution from non-controlling interests		**–**	27,347
Repayment of interest of a convertible bond		**–**	(342)
Repayment of principal of a promissory note		**–**	(150,000)
Repayment of interest of a promissory note		**–**	(7,500)
Dividend paid to non-controlling interest		**(3,076)**	–
Net cash generated from financing activities		**340,218**	429,951
Net increase in cash and cash equivalents		**63,829**	233,460
Cash and cash equivalents at beginning of year		**306,999**	60,227
Effect of foreign exchange rate changes		**(27,480)**	13,312
Cash and cash equivalents at end of year, representing			
Bank balances and cash		**343,348**	306,999

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General information

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

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

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

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

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements

(as part of Improvements to HKFRSs issued in 2010)

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

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
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 2014

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

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

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under 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 presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge a 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 presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

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

Key requirements of these five standards are described below.

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

HKFRS 11 replaces *HKAS 31 Interests in Joint Ventures* and *HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint* arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(continued)*

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

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

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

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate the application of other new and revised HKFRSs 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 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with *HKFRS 2 Share-based Payment* at the acquisition date (see the accounting policy below); and

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

3. Significant accounting policies *(continued)*

Business combinations *(continued)*

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, *or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets,* as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. 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 pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

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

3. Significant accounting policies *(continued)*

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income from investment is recognised when the shareholders' right to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services for administrative purposes (other than allocated land and construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

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

Foreign currencies

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

Exchange differences 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$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

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

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current 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.

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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Employee benefits

Employee entitlements

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

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

3. Significant accounting policies *(continued)*

Employee benefits *(continued)*

Retirement benefits scheme contribution

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

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Research and development expenditure

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

Intangible assets acquired in a business combination

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are recognised in the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Impairment on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment on financial assets (continued)

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

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

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade 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.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings and amount due to holding company) 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to the initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with *HKAS 37 Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a 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 and accumulated in equity is recognised in profit or loss.

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

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

Provisions

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

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with *HKAS 37 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation (if appropriate) recognised in accordance with *HKAS 18 Revenue*.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Share-based payments transactions

Share options granted to employees

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

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

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For the year ended 31 December 2011

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for Wuhan Kernel Bio Tech Co., Limited ("Wuhan Kernel") and Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), 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.

Changes in subjective input assumptions can materially affect the value in use estimate.

As at 31 December 2011, the carrying amount of goodwill is HK$72,037,000 (2010: HK$54,944,000). Details of the recoverable amount calculation are disclosed in note 21.

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

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

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

Impairment of trade and other receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. Key sources of estimation uncertainty *(continued)*

Impairment of inventories

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

Estimated impairment of assets

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

– property, plant and equipment;
– prepaid lease payments;
– available-for-sale financial assets measured at cost;
– intangible assets;
– investments in subsidiaries and associates; and
– non-current prepayments

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

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

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

Estimated amortisation of deferred income

Amortisation of deferred income which is related to the Compensation as defined in note 34 below is 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 Compensation is intended to compensate. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation as defined in note 34.

4. Key sources of estimation uncertainty *(continued)*

Estimated amortisation of deferred income *(continued)*

The management of the Group reviews the progress of the Relocation plan regularly and identify the expenses incurred for the Relocation purpose for which appropriate deferred income is estimated and amortised in profit or loss to match with expenses incurred accordingly.

5. Capital risk management

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

The capital structure of the Group at 31 December 2011 consists of debt, which includes bank borrowings and amount due to holding company disclosed in respective notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

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

6. Financial instruments

(a) Categories of financial instruments

	2011 **HK$'000**	2010 HK$'000
Financial assets		
Available-for-sale financial assets	**51,737**	35,055
Loans and receivables (including cash and cash equivalents)		
Loan receivable	**24,639**	–
Trade and other receivables	**298,016**	205,229
Pledged bank deposits	**66,939**	52,692
Bank balances and cash	**343,348**	306,999
	732,942	564,920
Financial liabilities at amortised cost		
Financial guarantee liabilities	**–**	427
Other financial liabilities		
Trade and other payables	**259,830**	269,814
Bank borrowings	**732,065**	346,717
Amount due to holding company	**12,656**	12,580
	1,004,551	629,111

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

(b) Financial risk management objectives and policies

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

i. Currency risk

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

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

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2010: 5%) in exchange rate of USD and HK$ against RMB while all other variables are held constant. 5% (2010: 5%) 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 end of each reporting period for a 5% change in foreign currency rates.

	2011 HK$'000	2010 HK$'000
Increase (decrease) in profit for the year		
– if USD weakens against of RMB	**1,724**	(2,773)
– if USD strengthens against of RMB	**(1,724)**	2,773
Increase (decrease) in profit for the year		
– if HK$ weakens against of RMB	**(104)**	1,401
– if HK$ strengthens against of RMB	**104**	(1,401)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

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

i. ***Currency risk*** *(continued)*

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

	2011 HK$'000	2010 HK$'000
USD		
Trade and other receivables	**50,687**	61,341
Bank balances and cash	**11,471**	5,152
Trade and other payables	**(853)**	(7,841)
Bank borrowings	**(95,778)**	(3,188)
HK$		
Trade and other receivables	**2,027**	2,332
Bank balances and cash	**13,433**	14,651
Trade and other payables	**(727)**	(2,428)
Bank borrowings	**–**	(30,000)
Amount due to holding company	**(12,656)**	(12,580)

ii. ***Interest rate risk***

The Group are primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates (see note 28) and variable-rate borrowings (see note 31). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Interest rate sensitivity

The sensitivity analyse below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2010: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points basis points (2010: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$704,000 (2010: increase/decrease by approximately HK$116,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

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

iii. Liquidity risk

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

At 31 December 2011, maximum banking facilities in an aggregate amount of approximately HK$1,435 million (2010: approximately HK$470 million) were available from the Group's principal bankers, of which approximately HK$732 million (2010: HK$347 million) has been utilised.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

As at 31 December 2011

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Trade and other payables	–	259,830	259,830	–	259,830
Bank borrowings	2.26%	751,609	707,132	44,477	732,065
Amount due to holding company	5%	13,289	–	13,289	12,656
		1,024,728	966,962	57,766	1,004,551

6. Financial instruments *(continued)*

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

iii. *Liquidity risk* (continued)

As at 31 December 2010

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	Carrying amount HK$'000
Trade and other payables	–	269,814	269,814	–	269,814
Financial guarantee liabilities (Note)	–	34,412	34,412	–	427
Bank borrowings	3.58%	359,128	318,878	40,250	346,717
Amount due to holding company	5%	13,209	–	13,209	12,580
		676,563	623,104	53,459	629,538

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

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

iv. *Credit risk*

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

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

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

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

Except for the financial guarantees given by the Group as set out in note 30, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 30.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

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

v. *Fair value*

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

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

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

– the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

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

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

Fair value measurements recognised in the statement of financial position

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

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

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

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

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale financial assets	10,006	–	–	10,006

6. Financial instruments *(continued)*

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

v. ***Fair value*** *(continued)*

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

There were no transfers between all levels in both years.

Reconciliation of Level 3 fair value measurement of financial liabilities

	Financial guarantee liabilities HK$'000
At 1 January 2010	–
Total gain or losses recognised in other comprehensive income	5
Arising on acquisition of a subsidiary	422
At 31 December 2010 and 1 January 2011	427
Total gain:	
– in profit or loss	(427)
– in other comprehensive income	–
At 31 December 2011	–

Of the total gains or losses for the year included in profit or loss, HK$427,000 (2010: nil) relates to write-back of financial guarantee liabilities which are included in other income.

Included in other comprehensive income is an amount of nil (2010: HK$5,000 gain) relate to exchange difference arising on translating the financial guarantee liabilities denominated in RMB to HK$ at the end of the reporting period and is reported as changes of 'translation reserve'.

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For the year ended 31 December 2011

7. Turnover and segment information

For the year ended 31 December 2011, the Group is principally engaged in manufacture and sales of pharmaceutical, healthcare and chemical products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
The PRC	**1,179,231**	884,703	**1,288,362**	820,869
America	**86,686**	55,269	**–**	–
Europe	**204,725**	45,647	**–**	–
Asia other than the PRC	**141,625**	58,666	**–**	–
Others	**35,309**	10,469	**–**	–
Total	**1,647,576**	1,054,754	**1,288,362**	820,869

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

Information about major customers

For the years ended 31 December 2011 and 2010, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. Other income

	2011 HK$'000	2010 HK$'000
Government grants (note (a))	**50,087**	122,482
Compensation for loss of property, plant and equipment (note (b))	**10,058**	–
Bank interest income	**4,837**	2,866
Sales of raw materials, scrap and other materials, net	**4,294**	8,100
Gain on disposal of property, plant and equipment	**3,964**	–
Investment income	**1,865**	–
Rental income	**783**	969
Reversal of impairment loss on trade and other receivables (note 27)	**463**	200
Write-back of financial guarantee liabilities	**427**	–
Dividend income from available-for-sale financial assets	**325**	–
Gain recognised on re-measuring interest in an associate to fair value on business combination date	**–**	2,648
Others	**1,326**	3,510
	78,429	140,775

Note:

(a) During the year ended 31 December 2010, government grants of RMB100,000,000 (equivalent to approximately HK$114,943,000) were received by the Group from the 武漢市礄口區土地儲備事務中心 (the "Land Reserve Centre") in the PRC for fulfillment of certain condition regarding the initiative of the relocation of the production facilities in Wuhan. Further details are included in note 34.

During the year ended 31 December 2011 and 2010, government grants of approximately HK$50,087,000 and HK$7,539,000 respectively have been received by the Group from the PRC Government or its agents as subsidy for the development and industrialisation of pharmaceutical products and for the encouragement of export sales and investment by the Group in certain area of the PRC without conditions attached thereto. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Included in the amount there is a compensation of approximately RMB8,350,000 (equivalent to approximately HK$10,058,000) from an insurance company for property, plant and equipment with carrying amounts of approximately RMB6,648,000 (equivalent to approximately HK$8,008,000) which were written off in a fire accident during the year.

9. Other operating expenses

	2011 HK$'000	2010 HK$'000
Amortisation of intangible assets	**346**	330

10. Finance costs

	2011 HK$'000	2010 HK$'000
Interest on bank loans wholly repayable within five years	**25,924**	18,068
Interest on amount due to holding company	**481**	1,687
Effective interest on convertible bond	**–**	1,345
Effective interest on promissory note	**–**	30,669
Interest on discounted bills receivable with recourse	**–**	191
	26,405	51,960

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. Income tax expense

	2011 HK$'000	2010 HK$'000
Current tax:		
The PRC	**14,850**	5,794
Deferred tax (note 32)	**(2,057)**	(1,905)
	12,793	3,889

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

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.

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

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

	2011 HK$'000	2010 HK$'000
Profit before tax	**99,464**	158,166
Tax at the domestic income tax rate of 25% (2010: 25%)	**24,866**	39,542
Tax effect of share of profit of associates	**(126)**	(787)
Tax effect of expenses not deductible for tax purpose	**12,221**	12,969
Tax effect of income not taxable for tax purpose	**(4,916)**	(36,881)
Tax effect of deductible temporary differences not recognised	**2,746**	–
Effect of tax exemptions granted to the PRC subsidiaries	**(5,778)**	–
Income tax on concessionary rate	**(8,350)**	(6,385)
Utilisation of tax losses previously not recognised	**(7,870)**	(4,569)
Tax charge for the year	**12,793**	3,889

The applicable tax rate of 25% (2010: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

12. Profit for the year

	2011 HK$'000	2010 HK$'000
Profit for the year is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**200,216**	145,023
– Retirement benefits schemes contributions	**13,323**	6,885
	213,539	151,908
Depreciation of property, plant and equipment	**45,669**	29,429
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**6,722**	5,927
Amortisation of intangible assets (included in other operating expenses)	**346**	330
Total depreciation and amortisation	**52,737**	35,686
Impairment losses on financial assets		
– trade and other receivables	**2,605**	2,682
– reversal of impairment loss on trade and other receivables (included in other income)	**(463)**	(200)
Impairment losses on financial assets, net	**2,142**	2,482
Auditors' remuneration		
– audit services	**1,880**	1,500
– non-audit services	**–**	1,870
Share of tax of associates	**147**	342
Cost of inventories recognised as an expense	**1,132,477**	679,947
Operating lease rentals in respect of land and buildings	**6,809**	4,667
(Gain) loss on disposal of property, plant and equipment	**(3,964)**	1,526
Write-off of property, plant and equipment	**8,008**	–
Impairment loss on inventories	**1,297**	961
Net foreign exchange losses	**8,252**	4,282

13. Dividend

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. Earnings per share

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

	2011 HK$'000	2010 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	**54,235**	97,973
Effect of dilutive potential ordinary shares: Interest on convertible bond	**–**	1,345
Earnings for the purposes of diluted earnings per share	**54,235**	99,318

	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,920,801**	1,477,418
Effect of dilutive potential ordinary shares: Convertible bond	**–**	23,235
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,920,801**	1,500,653

Diluted earnings per share was the same as the basic earnings per share because there were no potential dilutive ordinary share outstanding during the year ended 31 December 2011.

15. Directors' and employees' emoluments

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2011 HK$'000	2010 HK$'000
Fees:		
Executive directors	**150**	150
Independent non-executive directors	**300**	300
	450	450
Other emoluments		
Salaries and allowances	**1,099**	1,013
Retirement benefits scheme contributions	**12**	12
	1,561	1,475

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For the year ended 31 December 2011

15. Directors' and employees' emoluments *(continued)*

(a) Directors' emoluments *(continued)*

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2011 and 2010.

The emoluments paid or payable to each of the seven (2010: seven) directors for the year ended 31 December 2011 were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	**50**	**–**	**–**	**50**
Mr. Hu Bo	**50**	**–**	**–**	**50**
Mr. Shao Yan	**–**	**1,099**	**12**	**1,111**
Mr. Zhang Ji	**50**	**–**	**–**	**50**
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	**180**	**–**	**–**	**180**
Mr. Lo Kai, Lawrence	**60**	**–**	**–**	**60**
Mr. Xin Dongsheng (resigned on 12 May 2011)	**–**	**–**	**–**	**–**
Mr. Pei Geng (appointed on 12 May 2011)	**60**	**–**	**–**	**60**
Total	**450**	**1,099**	**12**	**1,561**

Details of directors' emoluments for the year ended 31 December 2010 are as follows:

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

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

During both years ended 31 December 2011 and 2010, no directors of the Company waived any emoluments.

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For the year ended 31 December 2011

15. Directors' and employees' emoluments *(continued)*

(b) Of the five individuals with the highest emoluments in the Group, one (2010: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2010: four) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Employees		
Salaries and allowances	**4,591**	2,539
Retirement benefits schemes contributions	**32**	32
	4,623	2,571

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**3**	1
	4	4

During both years ended 31 December 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.

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16. Property, plant and equipment

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2010	66,585	-	72,271	8,002	4,863	412	2,895	155,028
Additions	15,545	-	16,203	1,812	2,917	-	14,128	50,605
Acquired on acquisition of subsidiaries	148,740	1,745	120,458	2,706	2,989	-	7,647	284,285
Disposals	(494)	-	(479)	(332)	(107)	-	(3,142)	(4,554)
Transfer	1,269	-	3,755	-	26	-	(5,050)	-
Exchange realignment	5,988	39	5,599	365	296	-	404	12,691
At 31 December 2010 and at 1 January 2011	237,633	1,784	217,807	12,553	10,984	412	16,882	498,055
Additions	827	-	21,757	4,494	6,726	-	238,020	271,824
Acquired on acquisition of a subsidiary	20,967	-	5,996	1,828	359	-	2,905	32,055
Disposals	(1,088)	-	(2,118)	(500)	(796)	-	(760)	(5,262)
Write-off	(5,701)	-	(7,818)	-	-	-	-	(13,519)
Transfer	18,690	-	29,658	-	501	-	(48,849)	-
Exchange realignment	11,733	65	11,375	712	644	-	5,125	29,654
At 31 December 2011	283,061	1,849	276,657	19,087	18,418	412	213,323	812,807
Accumulated depreciation and impairment								
At 1 January 2010	5,733	-	8,048	446	2,412	412	-	17,051
Depreciation provided for the year	8,111	-	18,200	1,503	1,615	-	-	29,429
Eliminated on disposals/write-off	(86)	-	(427)	(39)	(70)	-	-	(622)
Exchange realignment	405	-	702	50	122	-	-	1,279
At 31 December 2010 and at 1 January 2011	14,163	-	26,523	1,960	4,079	412	-	47,137
Depreciation provided for the year	12,906	-	27,559	1,887	3,317	-	-	45,669
Eliminated on disposals	(598)	-	(1,846)	(456)	(446)	-	-	(3,346)
Eliminated on write-off	(1,509)	-	(4,002)	-	-	-	-	(5,511)
Exchange realignment	897	-	1,521	123	249	-	-	2,790
At 31 December 2011	25,859	-	49,755	3,514	7,199	412	-	86,739
Carrying values								
At 31 December 2011	257,202	1,849	226,902	15,573	11,219	-	213,323	726,068
At 31 December 2010	223,470	1,784	191,284	10,593	6,905	-	16,882	450,918

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For the year ended 31 December 2011

16. Property, plant and equipment *(continued)*

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

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

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

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

An allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 39.

17. Prepaid lease payments

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

	2011 HK$'000	2010 HK$'000
At beginning of year	**252,791**	201,505
Arising on acquisition of subsidiaries	**80,325**	53,155
Additions	**40,121**	–
Amortisation for the year	**(6,722)**	(5,927)
Exchange realignment	**8,016**	4,058
At end of year	**374,531**	252,791

Certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 39.

	2011 HK$'000	2010 HK$'000
Analysed for reporting purposes as:		
Current assets	**9,303**	6,677
Non-current assets	**365,228**	246,114
	374,531	252,791

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18. Interests in associates

	2011 HK$'000	2010 HK$'000
Cost of unlisted investments	**3,671**	1,153
Share of post-acquisition profits and other comprehensive income	**4,582**	3,923
Share of net assets of associates	**8,253**	5,076
Amount due from an associates	**216**	–
	8,469	5,076

Amount due from an associate is unsecured, interest-free and not repayable within next twelve months.

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

	2011 HK$'000	2010 HK$'000
Total assets	**21,316**	11,269
Total liabilities	**(4,571)**	(909)
Net assets	**16,745**	10,360
Group's share of net assets of associates	**8,253**	5,076

	2011 HK$'000	2010 HK$'000
Revenue	**29,644**	59,863
Profit for the year	**1,031**	5,757
Group's share of profits of associates for the year	**504**	3,149

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For the year ended 31 December 2011

18. Interests in associates *(continued)*

Details of the principal associates as at 31 December 2011 and 2010 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest attributable to the Group for associates 2011	2010	Particulars of issued/ paid-up capital	Principal activities
Yangxin Fuxin Chemical Company Limited ("Yangxin Fuxin") (Note (a))	The PRC/ The PRC	Limited liability company	**29.75%**	29.75%	Contributed capital RMB2,000,000	Production and sales fine chemicals and chemical medicine
武漢智薈生物科技股份有限公司 (Note (b))	The PRC/ The PRC	Limited liability company	**29.85%**	–	Contributed capital RMB4,000,000	Research and development, production and sale of bio-pesticides and additives

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010. Details are disclosed in notes 37(ii).

(b) 武漢智薈生物科技股份有限公司 was an associate of Wuhan Kernel and Wuhan Kernel was acquired by the Group as a subsidiary pursuant to an agreement signed on 22 September 2011. Details are disclosed in notes 37(i).

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

19. Available-for-sale financial assets

	2011 HK$'000	2010 HK$'000
Listed securities:		
– Listed equity securities in the PRC at fair value	**10,006**	14,450
Unlisted securities:		
– Unlisted equity securities, at cost	**41,731**	20,605
	51,737	35,055

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

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For the year ended 31 December 2011

20. Deposits for acquisition of non-current assets

	2011 HK$'000	2010 HK$'000
Purchase of land use rights (Note (a))	63,690	34,677
Purchase of land use right and a building (Note (b))	3,659	–
Purchase of a building (Note (c))	2,084	1,327
Acquisition of additional interest in a subsidiary (Note (d))	–	6,440
Purchase of plant machineries	5,247	–
	74,680	42,444

Note:

(a) On 26 September 2010, Zhejiang Xianle entered into an agreement with the relevant government authority to acquire certain assets including a land use right amounted to RMB6,000,000 (equivalent to approximately HK$7,059,000) within a specified period as stipulated in the agreement. Deposits of RMB3,500,000 (equivalent to approximately HK$4,312,000) were paid before the end of the year. As at 31 December 2011, the Group was in the progress of obtaining the land use right certificate.

On 15 October 2010, Grand Pharm (China) Company Ltd. ("Grand Pharm (China)") (formerly known as Wuhan Grand Pharmaceutical Group Company Limited) entered into an agreement with the relevant government authority to acquire land use right of a piece of land located in the PRC. The total consideration of the land use right amounting to RMB28,200,000 in which RMB20,000,000 (equivalent to approximately HK$23,529,000) was paid by Grand Pharm (China) as deposits. The land use right was obtained by Grand Pharm (China) during the current year.

On 22 December 2010, Hubei Fuchi paid RMB6,030,000 (equivalent to approximately HK$7,429,000) to the relevant government authority for the purpose of amending the usage of certain government allocated lands as industrial lands. During the year, additional amounts of RMB280,000 (equivalent to approximately HK$344,000) was incurred for the lands. As at 31 December 2011, the Group was in the process of obtaining the updated land use right certificates with revised usage.

On 28 April 2011, Wuhan Wuyao Pharmaceutical Co., Limited ("Wuhan Wuyao") entered into another agreement with 陽新縣國土資源局 to acquire another land use rights of two pieces of land located in the PRC. The total consideration of the land use right amounting to RMB41,890,000 (equivalent to approximately HK$51,605,000) which was fully paid by Wuhan Wuyao during the year. As at 31 December 2011, the Group was in the progress of obtaining the land use right certificates.

(b) Wuhan Grand Hoyo Company Limited ("Wuhan Grand Hoyo"), a subsidiary of the Group entered into an agreement with an independent third party to acquire land and a building amounted to RMB3,300,000 (equivalent to approximately HK$4,066,000) in which RMB2,970,000 (equivalent to approximately HK$3,659,000) was paid by Wuhan Grand Hoyo as deposits. The Group was in the progress of obtaining the land use right and building certificates.

(c) In last year, Zhejiang Xianle prepaid RMB1,128,000 (equivalent to approximately HK$1,390,000) to an independent third party to acquire a building with a contract price of RMB1,880,000 (equivalent to approximately HK$2,316,000). During the year, approximately RMB564,000 (equivalent to approximately HK$694,000) was paid. As at 31 December 2011, the Group was in the progress to obtain the building certificate.

(d) On 27 December 2010, Grand Pharm (China) entered into an agreement with 武漢東湖創新科技投資有限公司 (Wuhan Donghu Innovation and High Tech Investments Limited) ("Wuhan Donghu") to acquire a 6.4% equity interest in Wuhan Grand Hoyo with a consideration of RMB5,420,000 (equivalent to approximately HK$6,440,000) and a deposit for the amount was paid before 31 December 2010.

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

The acquisition has been completed during the current year.

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21. Goodwill

	HK$'000
Arising on acquisition of a subsidiary (Note (a)/(c))	54,944
Impairment	–
At 31 December 2010 and 1 January 2011	54,944
Arising on acquisition of a subsidiary (Note (b)/(c))	17,093
Impairment	–
At 31 December 2011	72,037

The above goodwill is acquired through business combination during the years ended 31 December 2010 and 2011. Goodwill acquired in a business combination is allocated, on acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The management considers the subsidiaries acquired during 2010 and 2011 represent two separate CGUs for the purpose of goodwill impairment testing.

Notes:

(a) During the year ended 31 December 2010, the Group acquired 67% equity interest in Zhejiang Xianle with a goodwill of approximately HK$54,944,000. Details are set out in note 37(v). During the year ended 31 December 2011, the CGU of Zhejiang Xianle was valued by the directors of the Company with reference to a valuation report issued by 台州中興和資產評估有限公司, an independent qualified valuer not connected by the Group. The valuation was determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of 16% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum.

For the year ended 31 December 2010, the recoverable amount of the CGU from Zhejiang Xianle is determined from value-in-use calculations. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and the discount rate of 15% that reflects current market assessment of the time value of money and the risks specific to the CGU.

(b) During the year ended 31 December 2011, the Group acquired 81.0263% equity interest in Wuhan Kernel from Wuhan Optics Valley Union Company Limited ("Wuhan Optics") with a goodwill of approximately of HK$17,093,000. Details are set out in note 37(i). The recoverable amount of the CGU is determined from value-in-use calculations. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and the discount rate of 15% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum.

(c) Changes in selling prices and direct costs for the above cash flow projections for the years ended 31 December 2010 and 2011 are based on past practices and expectations of future changes in the market. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Zhejiang Xianle and Wuhan Kernel to exceed their respective aggregate recoverable amounts.

Based on the aforesaid value-in-use calculations, the directors considered no impairment loss of goodwill as at 31 December 2011 (2010: nil).

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22. Intangible assets

	Acquired patent rights HK$'000 (note a)	Acquired exclusive distribution right HK$'000 (note b)	Total HK$'000
Cost			
At 1 January 2010	1,742	14,000	15,742
Written-off (Note b)	–	(14,000)	(14,000)
Exchange realignment	62	–	62
At 31 December 2010 and 1 January 2011	1,804	–	1,804
Exchange realignment	84	–	84
At 31 December 2011	1,888	–	1,888
Accumulated amortisation and impairment loss			
At 1 January 2010	490	14,000	14,490
Provided for the year	330	–	330
Written-off (Note b)	–	(14,000)	(14,000)
Exchange realignment	26	–	26
At 31 December 2010 and 1 January 2011	846	–	846
Provided for the year	346	–	346
Exchange realignment	47	–	47
At 31 December 2011	1,239	–	1,239
Carrying values			
As at 31 December 2011	649	–	649
As at 31 December 2010	958	–	958

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

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

Notes to the Consolidated Financial Statements

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22. Intangible assets *(continued)*

Notes:

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

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

Impairment testing on intangible assets

The directors of the Company had reviewed the carrying value of the Group's acquired patent rights as at 31 December 2011. The directors assess the impairment with reference to the estimated recoverable amount based on the higher of cash flow forecast from future use and the disposal value, and the estimated recoverable amount of the intangible assets was approximately HK$1,487,000 (2010: HK$958,000). The discount rate in measuring the amount of value in use was 11% (2010: 15%) in relation to patent rights. Accordingly, no impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011.

23. Deferred tax assets

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	Impairment loss on trade and other receivables HK$'000	**Tax losses** HK$'000	**Total** HK$'000
Arising on acquisition of subsidiaries	33	2,138	2,171
Exchange realignment	–	50	50
At 31 December 2010 and 1 January 2011	33	2,188	2,221
Acquisition of a subsidiary	1,285	–	1,285
Exchange realignment	14	103	117
At 31 December 2011	1,332	2,291	3,623

As at 31 December 2011, the Group has unused tax losses of approximately HK$26,786,000 (2010: HK$55,606,000) available to offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$9,164,000 (2010: HK$8,752,000) of such losses. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$17,622,000 (2010: HK$46,854,000) due to the unpredictability of future profit streams. The tax losses will expire 5 years from the year of origination.

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24. Prepayments

The amount represented prepayment of RMB19,469,000 (equivalent to approximately HK$23,984,000) (2010: RMB17,352,000 (equivalent to approximately HK$20,415,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

25. Loan receivables

	2011 HK$'000	2010 HK$'000
Current portion	**7,392**	–
Non-current portion	**17,247**	–
	24,639	–

During the year, Grand Pharm (China) entered into two agreements with 陽新縣財政局國庫科 from which unsecured loans of RMB20,000,000 were lent to 陽新縣財政局國庫科 for 3 years at the 1-year benchmark bank loan interest rate quoted by the People's Bank of China without security. The loan was lent to the PRC government body for compensation paid to people originally resided on the land which Grand Pharm (China) is in the progress of obtaining the land use right certificate. Details are set out in note 20(a) above.

The amount is neither past due nor impaired for whom there was no recent history of default.

The effective interest rates on the Group's loan receivables are 4.51%.

26. Inventories

	2011 HK$'000	2010 HK$'000
Raw materials	**98,220**	73,336
Work-in-progress	**68,777**	73,911
Finished goods	**156,569**	72,027
	323,566	219,274
Less: impairment loss	**(4,403)**	(3,106)
	319,163	216,168

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27. Trade and other receivables

	2011 HK$'000	2010 HK$'000
Trade receivables, net	**176,796**	105,879
Bills receivables	**94,090**	86,380
Other receivables, deposits and prepayments	**97,653**	63,553
Less: impairment loss on other receivables	**(27,259)**	(9,407)
	341,280	246,405

The Group allows a credit period of 30 – 90 days to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2011 HK$'000	2010 HK$'000
Within 90 days	**143,110**	99,630
91 -180 days	**24,293**	8,161
181 – 365 days	**11,630**	1,743
Over 365 days	**17,885**	30,249
	196,918	139,783
Less: Accumulated impairment	**(20,122)**	(33,904)
	176,796	105,879

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

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For the year ended 31 December 2011

27. Trade and other receivables *(continued)*

Trade receivables amounted to approximately HK$142,392,000 as at 31 December 2011 (2010: HK$95,985,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade receivables are amount due from the Group's associate of HK$815,000 (2010: nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

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

	2011 **HK$'000**	2010 HK$'000
Balance at beginning of the year	**33,904**	29,761
Arising on acquisition of subsidiaries	**6,433**	5,775
Impairment losses recognised	**2,545**	1,961
Impairment losses reversed	**(420)**	(84)
Amount written off as uncollectible	**(24,568)**	(5,416)
Exchange realignment	**2,228**	1,907
Balance at end of the year	**20,122**	33,904

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised.

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

	2011 **HK$'000**	2010 HK$'000
Balance at beginning of the year	**9,407**	5,481
Arising on acquisition of subsidiaries	**16,907**	3,019
Impairment losses reversed	**(43)**	(116)
Amount written off as uncollectible	**285**	–
Impairment losses recognised on other receivables	**60**	721
Exchange realignment	**643**	302
Balance at end of the year	**27,259**	9,407

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27. Trade and other receivables *(continued)*

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

Included in the Group's trade receivable balances are balances with aggregate carrying amount of HK$34,404,000 (2010: HK$9,894,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 121 days (2010: 119 days).

Ageing of trade receivables which are past due but not impaired

	2011 HK$'000	2010 HK$'000
Within 90 days	**23,095**	7,747
91 –180 days	**11,080**	1,658
181 – 365 days	**229**	489
	34,404	9,894

28. Pledged bank deposits/bank balances and cash

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

	HK$'000	USD'000
As at 31 December 2011	**13,423**	**1,468**
As at 31 December 2010	15,121	773

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

Pledged bank deposits represent deposits pledged to bank to secure a current bank borrowing of RMB30,000,000 granted to Zhejiang Xianle and the issuance of bills payable to certain subsidiaries and therefore are classified as current assets.

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29. Trade and other payables

	2011 HK$'000	2010 HK$'000
Trade payables	**100,079**	89,285
Bills payables	**45,081**	46,745
Accrued charges and other creditors	**155,535**	158,514
	300,695	294,544

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

	2011 HK$'000	2010 HK$'000
Within 90 days	**72,083**	64,849
Over 90 days	**27,996**	24,436
	100,079	89,285

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

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

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30. Financial guarantee liabilities

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

	HK$'000
Arising on acquisition of a subsidiary	422
Exchange realignment	5
At 31 December 2010 and 1 January 2011	427
Amount recognised in profit or loss	(427)
At 31 December 2011	–

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

As at 31 December 2011, the Group has not provided financial guarantees to other parties. As a result, the financial guarantee liabilities were written back to profit or loss.

31. Bank borrowings

	2011 **HK$'000**	2010 HK$'000
Bank loans (secured)	**732,065**	346,717
Carrying amount repayable:		
On demand or within one year	**695,231**	306,717
More than one year but not exceeding two years	**36,834**	40,000
	732,065	346,717

As at 31 December 2011, certain bank loans are guaranteed by China Grand Enterprises Incorporation ("China Grand"), a related company with common director of the Company, and secured by the allocated land, buildings, prepaid lease payments and bank deposits of the Group in the PRC as detailed in note 39 and independent third parties.

Other than the amount of HK$95,778,000 (2010: HK$3,188,000) and HK$nil (2010: HK$30,000,000) which are denominated in USD and HK$ respectively, the Group's other bank loans are denominated in RMB.

As at 31 December 2011, the bank loans are granted by banks in the PRC, Japan and Hong Kong. As at 31 December 2010, the bank loans are granted by banks in the PRC and Macau.

Except for the bank loans of HK$391,135,000 (2010: HK$3,188,000) that was charged at fixed interest rate of 2.5% to 6.71% (2010: 0.59%) per annum, all other bank loans bear variable interest rates from 3.7% to 7.22% (2010: 2.56% to 5.56%) per annum.

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32. Deferred tax liabilities

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

	Convertible bond HK$'000	Buildings and prepaid lease payments HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
At 1 January 2010	165	43,076	2,158	45,399
Fair value adjustment from acquisition of subsidiaries	–	22,401	–	22,401
Charged directly to equity	–	–	1,249	1,249
Credited to profit or loss	(165)	(1,740)	–	(1,905)
Exchange realignment	–	477	–	477
At 31 December 2010 and 1 January 2011	–	64,214	3,407	67,621
Fair value adjustment from acquisition of a subsidiary	–	17,167	–	17,167
Charged directly to equity	–	–	(1,282)	(1,282)
Credited to profit or loss	–	(2,057)	–	(2,057)
Exchange realignment	–	1,206	161	1,367
At 31 December 2011	–	80,530	2,286	82,816

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$11,990,000 (2010: HK$5,707,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. Amount due to holding company

For the year ended 31 December 2011 and 2010, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

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34. Deferred income

The movement of deferred income is set out below:

	HK$'000
At 1 January 2010	–
Compensation received during the year (note (a))	198,472
Amount recognised in profit or loss (note (a))	(114,943)
At 31 December 2010 and 1 January 2011	83,529
Compensation received during the year (note (b)/(c))	210,659
Exchange realignment	3,937
At 31 December 2011	298,125

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

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

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

34. Deferred income *(continued)*

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year, RMB85,500,000 (equivalent to approximately HK$105,330,000) was received by Grand Pharm (China) . The rest of RMB342,000,000 has yet been received by the Group as at the date of approval of these financial statements.

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China) .

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

The relocation commencement fee of RMB100,000,000 (equivalent is approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the year ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively.

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35. Share capital

	Number of shares at		Share Capital at	
	31 December 2011 '000	31 December 2010 '000	**31 December 2011 HKD'000**	31 December 2010 HKD'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At beginning of year	**1,920,801**	1,073,934	**19,208**	10,739
Issue of shares pursuant to a subscription agreement (note a)	–	200,000	–	2,000
Issue of shares on conversion of convertible bond (note b)	–	166,667	–	1,667
Issue of shares pursuant to an open offer (note c)	–	480,200	–	4,802
At end of year	**1,920,801**	1,920,801	**19,208**	19,208

Notes:

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

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

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

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

36. Share options

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

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

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

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

There was no share options outstanding and granted throughout the years ended 31 December 2011 and 2010.

37. Acquisition of subsidiaries

(i) Wuhan Kernel

On 22 September 2011, Grand Pharm (China) has entered into an agreement to acquire 81.03% equity interest in Wuhan Kernel at a total consideration of approximately RMB103 million (approximately HK$125 million). The acquisition has been completed on 17 November 2011. The aggregate consideration of approximately RMB103 million has been settled by cash.

Acquisition-related costs amounting to HK$223,000 have been excluded from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	28,864	3,191	32,055
Prepaid lease payments	14,850	65,475	80,325
Interest in an associate	2,400	–	2,400
Inventories	20,183	–	20,183
Trade and bills receivables	64,167	–	64,167
Other receivables	8,029	–	8,029
Deferred tax assets	1,285	–	1,285
Bank balances and cash	11,844	–	11,844
Trade and other payables	(38,375)	–	(38,375)
Amount due to an associate	(52)	–	(52)
Bank borrowings	(30,513)	–	(30,513)
Tax liabilities	(427)	–	(427)
Deferred tax liabilities	–	(17,167)	(17,167)
	82,255	51,499	133,754
Non-controlling interests			(25,378)
Goodwill arising on acquisition			17,093
Total consideration			125,469
Satisfied by:			
Cash			125,469
Net cash outflow arising on acquisitions:			
Consideration paid in cash			(125,469)
Less: Bank balances and cash acquired			11,844
			(113,625)

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37. Acquisition of subsidiaries *(continued)*

(i) Wuhan Kernel *(continued)*

The fair value of trade and bills receivable and other receivables at the date of acquisition amounted to HK$64,167,000 and HK$8,029,000 respectively. The gross contractual amounts of those trade and other receivables acquired amounted to HK$95,536,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$23,340,000.

The non-controlling interests in Wuhan Kernel recognised at the acquisition date were measured by reference to their proportionate share of net assets acquired.

Goodwill arose in the acquisition of Wuhan Kernel because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Wuhan Kernel. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year is an amount of HK$1,266,000 contributed by Wuhan Kernel. Revenue for the year includes HK$1,865,000 in respect of Wuhan Kernel.

Had the acquisition of Wuhan Kernel been effected at 1 January 2011, the Group's revenue for the year would have been HK$1,746,832,000 and the consolidated profit for the year would have been HK$94,333,000, in which Wuhan Kernel recorded approximately HK$101,121,000 in turnover and approximately HK$8,928,000 in profit after tax during 2011. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is it intended to be a projection of future results.

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

37. Acquisition of subsidiaries *(continued)*

(ii) Hubei Fuchi

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

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

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

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

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

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37. Acquisition of subsidiaries *(continued)*

(ii) Hubei Fuchi *(continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year ended 31 December 2010 is an amount of HK$8,010,000 contributed by Hubei Fuchi. Revenue for the year ended 31 December 2010 includes HK$169,606,000 in respect of Hubei Fuchi.

Had the acquisition of Hubei Fuchi been effected at 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been HK$1,133,425,000 and the consolidated profit for the year would have been HK$155,336,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

(iii) Hubei Grand EBE

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

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

37. Acquisition of subsidiaries *(continued)*

(iii) Hubei Grand EBE *(continued)*

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

37. Acquisition of subsidiaries *(continued)*

(iii) Hubei Grand EBE *(continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year ended 31 December 2010 is an amount of HK$8,114,000 contributed by Hubei Grand EBE. Revenue for the year ended 31 December 2010 includes HK$19,158,000 in respect of Hubei Grand EBE.

Had the acquisition of Hubei Grand EBE been effected at 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been HK$1,058,299,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$144,105,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved has the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

(iv) Wuhan Grand Hoyo

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

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37. Acquisition of subsidiaries *(continued)*

(iv) Wuhan Grand Hoyo *(continued)*

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

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

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

Impact of acquisition on the results of the Group

Included in the consolidated profit for year ended 31 December 2010 is an amount of HK$8,222,000 contributed by Wuhan Grand Hoyo. Revenue for the year ended 31 December 2010 includes HK$155,737,000 in respect of Wuhan Grand Hoyo.

Had the acquisition of Wuhan Grand Hoyo been effected at 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been HK$1,099,234,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$158,924,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

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37. Acquisition of subsidiaries *(continued)*

(v) Zhejiang Xianle

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

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

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

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

37. Acquisition of subsidiaries *(continued)*

(v) Zhejiang Xianle *(continued)*

Impact of acquisition on the results of the Group

Included in the consolidated profit for the year ended 31 December 2010 is an amount of HK$3,734,000 contributed by Zhejiang Xianle. Revenue for the year ended 31 December 2010 includes HK$40,472,000 in respect of Zhejiang Xianle.

Had the acquisition of Zhejiang Xianle been effected at 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been HK$1,208,475,000 and the consolidated profit for the year ended 31 December 2010 would have been HK$164,081,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is it intended to be a projection of future results.

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

38. Related party transactions

(a) In addition to the balances with associates as disclosed in notes 18 and 27 and holding company as disclosed in note 33, during the years ended 31 December 2011 and 2010, the Group entered into following transactions with its related parties:

	2011 HK$'000	2010 HK$'000
Interest charged to the Group by holding company (note (i))	**481**	1,687
Sales of goods to associates (note (ii))	**6,179**	2,647

Note:

(i) Interest was charged on an advance from the holding company as disclosed in note 33.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(b) Details of the financial guarantee given by China Grand to banks in respect of the loans granted to the Group as at 31 December 2011 are set out in note 31.

(c) Compensation of key management personnel

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

	2011 HK$'000	2010 HK$'000
Short-term benefits	**5,450**	3,552
Post-employment benefits	**44**	44
	5,494	3,596

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

39. Pledge of assets

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

	2011 HK$'000	2010 HK$'000
Prepaid lease payments	**84,250**	7,747
Allocated land	**1,849**	1,784
Buildings	**36,009**	35,915
Pledged bank deposits	**66,939**	52,692
	189,047	98,138

40. Commitments

(a) Operating lease commitment

The Group as lessee

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

	2011 HK$'000	2010 HK$'000
Within one year	**3,433**	3,456
In the second to fifth year inclusive	**2,544**	5,986
	5,977	9,442

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

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$783,000 (2010: HK$969,000). The total future minimum lease payments from tenants under non-cancellable operating lease are as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**190**	515
In the second to fifth year inclusive	**13**	204
	203	719

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

40. Commitments *(continued)*

(b) Capital commitment

	2011 HK$'000	2010 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**174,670**	29,853
Acquisition of other non-current assets	**3,743**	3,252
	178,413	33,105

41. Retirement benefits schemes

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

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

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

The total cost charged to income of approximately HK$13,335,000 (2010: HK$6,897,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

42. Major non-cash transactions

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

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

(c) As disclosed in note 20(d), during the year ended 31 December 2011, Grand Pharm (China) has acquired 6.4% equity interest in Wuhan Grand Hoyo with a consideration of RMB5,420,000 (equivalent to approximately HK$6,440,000) which was paid for the year ended 31 December 2010 and included in deposits for acquisition of non-current assets as at 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

43. Statement of financial position information of the Company

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

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**300**	442
Investments in subsidiaries	(a)	**394,407**	394,407
		394,707	394,849
Current assets			
Trade and other receivables		**2,027**	2,910
Bank balances and cash		**13,433**	15,123
		15,460	18,033
Current liabilities			
Trade and other payables		**727**	2,428
Bonds issued	(b)	**31,000**	–
Bank borrowings		**–**	30,000
Amount due to a subsidiary		**1,560**	–
		33,287	32,428
Net current liabilities		**(17,827)**	(14,395)
Total assets less current liabilities		**376,880**	380,454
Non-current liabilities			
Amount due to holding company		**12,656**	12,580
Net assets		**364,224**	367,874
Capital and reserves			
Share capital		**19,208**	19,208
Reserves	(c)	**345,016**	348,666
		364,224	367,874

43. Statement of financial position information of the Company *(continued)*

(a) Investments in subsidiaries

	Company	
	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**394,407**	394,407

The following is a list of principal subsidiaries of the Company as at 31 December 2011 and 2010:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held		Particulars of issued/ paid-up capital	Principal activities
			2011	2010		
Grand Pharm (China)	PRC/PRC	Limited liability company	**73.67%**	73.67%	Contributed capital RMB185,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (note i)	PRC/PRC	Limited liability company	**73.18%**	72.72%	Contributed capital RMB61,000,000 (2010: RMB31,000,000)	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (note ii)	PRC/PRC	Limited liability company	**45.97%**	41.26%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi	PRC/PRC	Limited liability company	**60.72%**	60.72%	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE	PRC/PRC	Limited liability company	**73.67%**	73.67%	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67%**	67%	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (note iii)	PRC/PRC	Limited liability company	**59.69%**	–	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

43. Statement of financial position information of the Company *(continued)*

(a) Investments in subsidiaries *(continued)*

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

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

Notes:

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) As disclosed in note 37(iv) above, Wuhan Grand Hoyo became a subsidiary of the Group during the last year for the reason as mentioned therein.

During the year, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%. Further details were set out in note 20(d) above.

(iii) As disclosed in note 37(i), Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(b) Bonds issued

The Company has issued bonds with aggregate amount of HK$31,000,000 which are unsecured, interest-bearing at 6.56% per annum and repayable in 2012 to Grand Pharm (China).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

43. Statement of financial position information of the Company *(continued)*

(c) Reserves of the Company

	Share premium HK$'000	Convertible bond reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	94,457	3,256	–	(109,133)	(11,420)
Issue of shares pursuant to an open offer	268,628	–	–	–	268,628
Share premium reduction	(230,406)	–	121,273	109,133	–
Issue of shares on conversion of convertible bond	51,589	(3,256)	–	–	48,333
Issue of shares pursuant to a subscription agreement	84,360	–	–	–	84,360
Loss for the year	–	–	–	(41,235)	(41,235)
At 31 December 2010 and 1 January 2011	268,628	–	121,273	(41,235)	348,666
Loss for the year	–	–	–	(3,650)	(3,650)
At 31 December 2011	268,628	–	121,273	(44,885)	345,016

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

Loss attributable to shareholders of the Company approximately HK$3,650,000 (2010: loss of HK$41,235,000) has been dealt with in the consolidated financial statements of the Company.

44. Events after the reporting period

Pursuant to an agreement signed on 14 February 2012, China Grand Pharmaceutical (Hong Kong) Limited ("Grand Pharm (Hong Kong)"), an indirectly wholly-owned subsidiary of the Company, has agreed to purchase and an independent third party agreed to sell 2.28% equity interest in Grand Pharm (China) at approximately HK$11.9 million (approximately RMB9.7 million) (the "Grand Pharm (China) Acquisition"). After completion of the Grand Pharm (China) Acquisition, China Grand (Hong Kong) will effectively own 75.95% equity interest in Grand Pharm (China).

Details of the Grand Pharm (China) Acquisition are set out in the Company's announcement dated 14 February 2012.

Financial Summary

Results

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,647,576**	1,054,754	545,435	269,882	49,045
Profit (loss) before tax	**99,464**	158,166	48,786	(19,277)	(56,090)
Income tax	**(12,793)**	(3,889)	(6,873)	4	2,205
Profit (loss) for the year	**86,671**	154,277	41,913	(19,273)	(53,885)

Assets and liabilities

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,431,147**	1,687,086	617,332	572,034	198,699
Total liabilities	**(1,461,228)**	(840,237)	(481,636)	(481,469)	(240,542)
Net assets (liabilities)	**969,919**	846,849	135,696	90,565	(41,843)