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

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

Annual Report
2011/2012

## THE MISSION

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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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

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

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Wong Ming Chun
*(CPA, ACCA)*

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited

Bank of China
Guiyang Branch, Jiaxiu Sub-branch

## LEGAL ADVISERS AS TO HONG KONG LAWS

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

## AUDITORS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

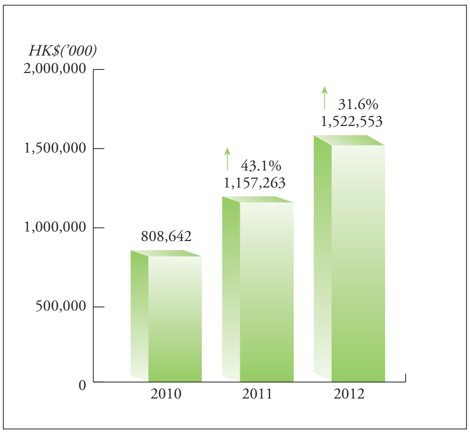
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

# FINANCIAL HIGHLIGHTS

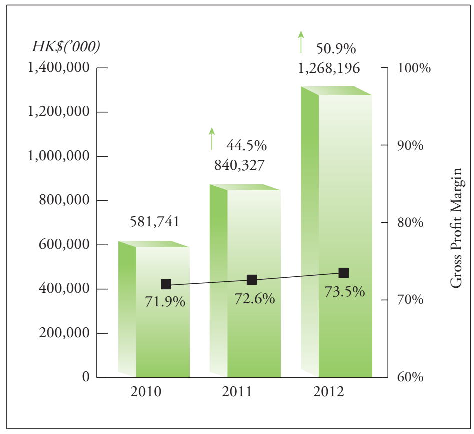
## KEY FINANCIALS

| | 2012 *HK$'000* | 2011 *HK$'000* | % Change |
|---|---|---|---|
| Turnover (after rebate) | **1,312,127** | 1,157,263 | ↑ 13.4% |
| Turnover (before rebate) | **1,724,465** | 1,157,263 | ↑ 49.0% |
| • Traditional Chinese medicines (including mainly gynecological medicine) | **1,099,242** | 836,792 | ↑ 31.4% |
| • Bio-pharmaceutical products and bio-technology | **423,311** | 320,471 | ↑ 32.1% |
| • Trading business | **201,912** | – | N/A |
| Profit attributable to owners of the Company | **657,228** | 441,838 | ↑ 48.7% |
| Earnings per shares (in Hong Kong cents) | | | |
| Basic | **27.30** | 18.96 | ↑ 44.0% |
| Diluted | **27.29** | 18.64 | ↑ 46.4% |
| Gearing ratio (%) | **0.8** | 1.0 | ↓ 20.0% |
| Net Cash | **2,063,665** | 1,424,250 | ↑ 44.9% |

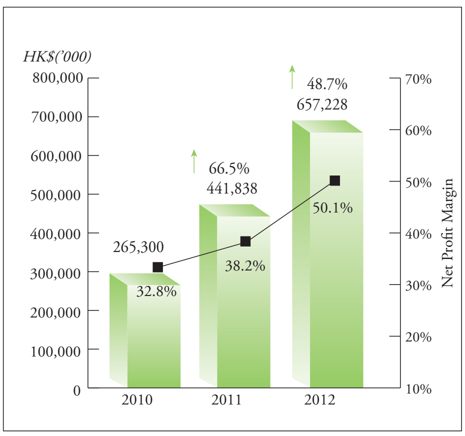
## TURNOVER (BEFORE REBATE AND EXCLUDING TRADING BUSINESS)



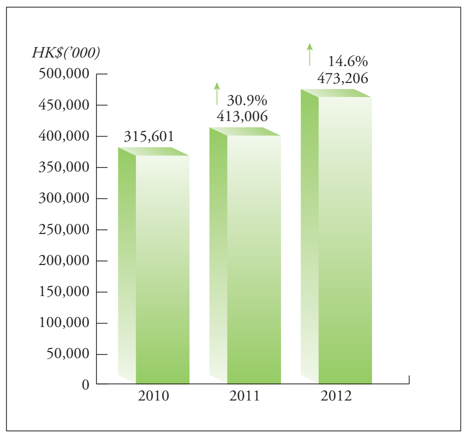

## GROSS PROFIT (BEFORE REBATE)




## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

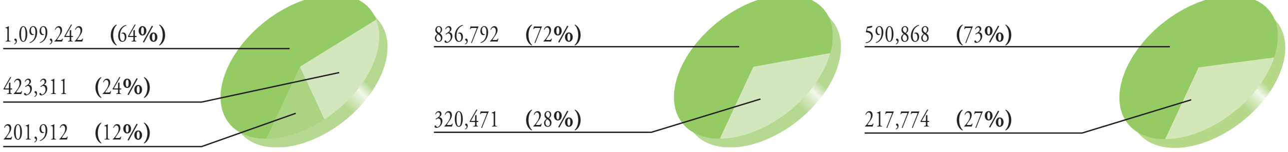



## EBITDA (EXCLUDING NON-OPERATING INCOME/EXPENSE)




## TURNOVER (BEFORE REBATE)

**2012 (figures below are in HK$'000) 2011 (figures below are in HK$'000) 2010 (figures below are in HK$'000)**




Traditional Chinese medicines (including mainly gynecological medicine)

Bio-pharmaceutical products and bio-technology

Trading business

# CHAIRMAN'S STATEMENT

On behalf of the board of directors ("**Board**") of Hua Han Bio-Pharmaceutical Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual results of the Group for the year ended 30 June 2012 ("**Year**").

## BUSINESS REVIEW

During the Year under review, the results of the Group continued to report a satisfactory growth. Turnover (before rebate and excluding trading business) for the Year amounted to approximately HK$1,522.6 million, representing a growth of 31.6% over the HK$1,157.3 million of last financial year. Profit attributable to the owners of the Company amounted to approximately HK$657.2 million. Such growth was mainly attributable to the rapid increase in the sales of the Group's owned intellectual property rights drugs categories listed in the National Medical Insurance Catalogue and the Over The Counters ("**OTC**") drugs categories. It was also due to the further integration and application of enterprise resources under the Group and the sustained enhancement in operational efficiency. Gains on investments were also increased as a result of the disposal of the shares of Magic Holdings International Limited ("**Magic**（美即）") the Group held.

*Guizhou Hanfang Medicine Manufacture Co. Ltd.*


*Guiyang De Chang Xiang Pharmaceutical Company Limited*

## GOAL AND STRATEGY

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

Our overall strategy is to consolidate the channel and internal resources system, adapt to the industry and market changes brought by the "**new medical reform**（新醫改）"; perfect the business model that will drive the overall growth of prescription drugs with exclusive National Medical Insurance Catalogue products being the core products, so as to establish the opportunity to become a national brand to accelerate the growth of OTC products; respond to the policy-oriented trend and expand the market coverage and market share of drugs in the Catalogue of National Essential Drugs; speed up the research and development of bio-albumin new products, placenta blood products and stem cell products that have independent intellectual property rights to form the Group's ongoing competitiveness based on innovative drugs and innovative technology; continue to structure the management system that can reflect positively the market value of the Group, thereby to enhance and protect shareholders' interests.

*Prescription Drugs*

*Yeosure Series*

*Anti-tumour Medicines*

## PROSPECTS

Looking forward, despite the overall economic growth in China has started to slow down, however, as affected by the factors like accelerating aging population, better comprehensive coverage of national medical insurance system, continuous increase in medical insurance premium, increase of PRC Government's input of resources into the public health medical sector and people's raising awareness in medical healthcare, the pharmaceutical industry will continue to maintain a rapid development. This will enable domestic pharmaceutical demand to maintain its growing trend. The PRC pharmaceutical market is in its "**Golden Decade**" grand development stage.

*OTC Drugs*


*Fuke Zaizaowan & Fuke Zaizao capsules*

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

1. continue to maintain the Group's leading position in gynecological pharmaceutical products in domestic markets. We will consolidate the operation model of promoting the exclusive national medical insurance catalogue (國家醫保) products to drive the sales of other prescription drugs and establishing the reputable OTC branded products to drive the sales of other OTC drugs. The Group will strengthen the co-operation relationship with hospitals, place emphasis on clinical academic drive, expert guidance and rational drug application by doctors, and build up a good atmosphere in hospitals' acknowledgement, doctors' recognition and safe medication of patient for the products of the Group; increase the efforts in market resources integration and channel construction, rapidly improve the market influence and sales volume of our core OTC products, achieve the breakthrough from a regional brand to a national brand as soon as possible.

2. continue the establishment of industry chain of biological albumin, cord blood and stem cells in the aspect of technology, product and leading market position, and while grasping the industry base further, we will accelerate the pace of introducing the already matured technology and products like "**Human Nerve Growing Factor Injection**" (人神經生長因子注射劑), "**Golden Peptides**" (金紫肽) into the market, and maneuver all market resources to ensure meeting the sales forecast, thereby becoming an important revenue source of the Group.

3. strictly organise the manufacturing and management under the Good Manufacturing Practice ("**GMP**") standards, stringently enforce quality control to ensure product quality.

4. work with other leading pharmaceutical enterprises with more open-minded mentality to achieve the complementary strengths of each other.

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

*Bio-pharmaceutical products*


*"Yi Fu" and "Yi Bei"*

## APPRECIATION

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

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


*"Qijiao Shengbai capsules" and "Zhisou Huatan pills"*

**Zhang Peter Y.**
*Chairman*

Hong Kong
28 September 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## MARKET REVIEW

During the Year, the PRC pharmaceutical industry continued to maintain a high growth. According to the statistics from National Bureau of Statistics of China, sales revenue of PRC pharmaceutical industry in 2011 had achieved RMB1,452.2 billion, representing a year-on-year increase of 29.37%, reaching its relatively historical high in growth; with a recorded profit of RMB149.4 billion, representing a year-on-year increase of 23.50%; sales revenue of PRC pharmaceutical production industry in the first half of 2012 had achieved RMB776.1 billion, representing an increase of 19% as compared to the corresponding period of last year, with a recorded profit of RMB77.1 billion, representing an increase of 17% as compared to the corresponding period of last year. The drivers of the continuous expansion of the PRC pharmaceutical market are as follow: firstly, the pace of population aging is accelerating and diseases with patients of mainly the aged, such as cardiovascular disease, cancer, diabetes mellitus and neurologic disorder rank among the top in respect of morbidity rate and relevant treatment costs; secondly, the coverage of national medical insurance system is getting more and more comprehensive which reaching over 1.3 billion population, there is an increase in medical insurance premium such as increases in the medical insurance for urban residents, government subsidies for new rural co-operation medical scheme and the reimbursement ratio of serious diseases; thirdly, the government increases its input of resources into the public health medical sector. Urban community hospitals and county hospitals (especially township hospitals), are developing rapidly while medical conditions are significantly improved; fourthly, health demand by urban residents has increased continuously with increasing purchasing power.

During the Year, the PRC pharmaceutical industry emerged with some new features: as affected by the implementation of "Antibiotics Restriction Order" by the state, there was a significant decline in production scale and sales of chemical raw materials and chemical medicines, while the development of herbal pieces and Chinese patent drugs was fast, with a market share of nearly 30%; product and technology innovation became the focus of investment and development direction of more and more pharmaceutical enterprises. Public concern towards pharmaceutical product quality and medication safety has escalated due to toxic capsule incident in the PRC. The supervision efforts of drug regulatory departments in this respect are enhanced greatly and control standards are also increased substantially. The regulatory scope basically covered all areas of pharmaceutical production; the 2010 version of National GMP for Pharmaceutical Production (2010版國家藥品生產質量管理規範) has been implemented, and the time limit requirements of the new version of GMP certification and the increasing investments in fixed assets had promoted the acceleration of resources integration in pharmaceutical manufacturing industry. The scale of state-owned enterprises is expanding quickly; the entry of foreign enterprises into the industry had led to the intensifying mergers and acquisitions and reorganisation.

China is the biggest antibiotics consumption country in the world, but the abuse of antibiotics causes serious impact on health of citizens. With the launch of "Antibiotics Restriction Order", it has seriously hit the chemical raw materials and chemical medicine industry, and objectively it has created development opportunities for traditional Chinese medicine industry. Along with policy support, the traditional Chinese medicine industry had recorded the most rapid growth during the Year. As the competition of generic drug market is intense with decreasing gross profit, it causes more and more PRC pharmaceutical enterprises to intensify their efforts in new drugs and new technology and to enhance their future competitive ability, so as to excel others in the market. After the launching of new version of GMP Standards that cover the basic GMP requirements of the standards as in Europe, U.S.A. and that of the World Health Organisation issued in 2011, higher requirements in drug production and quality control were demanded. This will cause certain impact on small and medium-size pharmaceutical enterprises as they need to substantially increase the investment in technological innovation in the short run. However, in the long run, it will benefit in enhancing the clustering of pharmaceutical industry, promote the upgrading of pharmaceutical industry, modernisation and internationalisation of medicine production. Under the conditions of government support and advantages in resources, several State-owned medicines enterprises are becoming the conglomerates of the PRC pharmaceutical industry through several rounds of mergers and acquisitions and reorganisations, with substantial increase in market strength and influence. It has clearly demonstrated that foreign investment enterprises also have aggressively entered into the PRC pharmaceutical market to trying capture larger market share.

During the Year, "**the 12th Five-Year Plan in China Pharmaceutical Industry**"(**中國醫藥工業十二五規劃**) had already been launched, which mainly targets towards the facilitation of transformation, upgrading and rapid development of the pharmaceutical industry, accelerates the pace of drug innovation, especially bio-technological medicine of which neurodegenerative disease drugs, genetic engineering protein and polypeptide drugs, genetic therapy drugs and stem cell therapy products are being listed in the first batch of key development areas. At the same time, it improves the quality and safety standards of pharmaceutical products, reinforces the major responsibility of enterprises in terms of quality control and promotes enterprises to improve its quality management system. For other aspects, the "**new medical reform**"(**新醫改**) in China continued to be implemented comprehensively, the National Essential Drugs system was spreading widely, and public hospitals were reforming orderly. Without any doubt, with the arrival of the great era of the PRC pharmaceutical market, those enterprises which have strong development prospects, tier strategies in keeping up with market development, unique product series and advanced technologies, strong and well-established nationwide end-user sales marketing network and excellent implementation capacity will eventually excel others in the market and become a conglomerate pharmaceutical enterprise based in the PRC, and then those enterprises will grow stronger and stronger to face international competition.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the Year, against the backdrop of the gradual implementation of domestic "**new medical reform**" (新醫改) policies, enhancement of control efforts and intensification of pharmaceutical market competition, the Group had adopted proactive measures to sustain a continuous and rapid growth for the Group's businesses. During the Year, the Group continued to focus on the critical areas of its designated development strategy, explored and established a new sales model. This new sales model is to promote the exclusive national medical insurance catalogue ("**National Medical Insurance Catalogue**") (醫保目錄) products to drive the sales of prescription drugs and also to promote the exclusively branded product categories to drive the sales of Over The Counters ("**OTC**") drugs. Vigorously developing bio-pharmaceutical medicines and technologies while keeping the steady growth of traditional Chinese medicines mainly specialising in gynecological pharmaceutical products have formed a new structure of the Group's future development. Meanwhile, the Group strictly adhered to the manufacturing standards and processes of GMP, emphasised product quality to ensure the quality. Furthermore, the Group's ability to estimate expenditure scientifically, to enforce stringent control in procurement and production costs, and to improve its operational management service standards, helped achieving the rapid expansion of business scale and significant growth of sales revenue and profits. This had brought to the Group a solid foundation in sustaining a healthy and rapid development position.

## FINANCIAL PERFORMANCE

During the Year, the Group's turnover was approximately HK$1,312.1 million (corresponding period in 2011: approximately HK$1,157.3 million) with gross sales revenue (before deducting rebates) amounted to approximately HK$1,724.5 million (corresponding period in 2011: approximately HK$1,157.3 million). Out of the gross sales revenue (before deducting rebates), approximately HK$1,099.3 million was derived from traditional Chinese medicines mainly specialising in gynecological pharmaceutical products, representing an increase of approximately 31% as compared to the corresponding period last year. During the Year, sales (before deducting rebates) in bio-pharmaceutical products was approximately HK$423.3 million, representing an increase of approximately 32% as compared to the corresponding period last year. Approximately HK$201.9 million of the Group's turnover during the Year was attributable to trading business.

During the Year, the Group recorded a profit attributable to the owners of the Company of HK$657.2 million, representing an increase of approximately 48.75% as compared to the corresponding period last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET PERFORMANCE

During the Year, for prescription drugs, the core products of the Group include four exclusive products in National Medical Insurance Catalogue, namely "**Qijiao Shengbai Capsules**"(**芪膠升白膠囊**), "**Zhisou Huatan Pills**"(**止嗽化痰丸**), "**Yi Fu**"(**易孚**) and "**Yi Bei**"(**易貝**). The Group placed emphasis on boosting clinical academic drive, expert guidance and rational drug application by doctors, forming a good trend in hospitals' acknowledgement, doctors' recognition and safe medication of patients, and thereby further enhanced the growth pattern for the continuous increase in sales volume of the exclusive products in National Medical Insurance Catalogue which also boosts the sales of other types of products. Sales revenue of "**Qijiao Shengbai Capsules**"(**芪膠升白膠囊**) and "**Zhisou Huatan Pills**"(**止嗽化痰丸**) for the Year were approximately HK$243.3 million and HK$57.8 million respectively and had recorded growth rates of approximately 124% and 51% respectively, as compared with the same period last year; gross sales revenues of "**Yi Fu**"(**易孚**) & "**Yi Bei**"(**易貝**), before deducting rebates amounted to approximately HK$404.6 million for the Year and had recorded growth rate of approximately 39%, as compared with the same period last year; for OTC drugs, our core product is "**Fuke Zaizaowan**"(**婦科再造丸**) (including capsules). The Group placed emphasis on constructing channels and marketing team and at the same time, excavated the unique functions and curative effects of the product, developed and leveraged on the brand promotion effect to actively expand our brand awareness and sales of products. During the Year, "**Fuke Zaizaowan**"(**婦科再造丸**) (including capsules) recorded sales revenue of approximately HK$324.5 million, representing an increase in sales revenue of approximately 55% as compared with the same period last year , and was among the top four, in terms of sales volume, of the domestic gynecological recuperating products.

## RESEARCH AND DEVELOPMENT

During the Year, the Group continued to conduct research and development activities entwining raw materials like human placenta and cord blood, with the purpose of establishing an international leading, complete and high-end product and technology chain within this industry. The Group's "**Guizhou Province Stem Cell and Tissue Engineering Technology Research Centre**"(**貴州省幹細胞與組織工程技術研究中心**), through the co-operation with Chinese Academy of Science(中國科學院), had achieved a number of indicative breakthroughs such as the process optimisation for **"Human Nerve Growing Factor Injection"(人神經生長因子注射劑)** under large-scale production environment, and had continued to participate in the research of "**Mesenchymal Stem Cell Project**"(**間充質幹細胞項目**) in Guizhou Province, and is closely cooperating with Chinese Academy of Science(中國科學院) and Shenzhen Beike Biotechnology Company Ltd. ("**Beike Bio-technology**")(深圳市北科生物科技有限公司("**北科生物**")) to jointly research and develop the bio-engineering protein drugs and polypeptide products, genetic therapy drugs and stem cell therapy products etc.. During the Year, the Group obtained a total of 13 national patents in the PRC.

## PRODUCTION FACILITIES CONSTRUCTION AND COST CONTROL

During the Year, for the production facilities construction, Guizhou Factorr's project of "**Human Nerve Growing Factor Injection**"**（人神經生長因子注射劑）**had completed all the works prior to State GMP certification, and is pending for the formal report of National Institutes for Food and Drug Control（中國食品藥品檢定院）. For "**Key Laboratory of Stem Cell Research**"**（幹細胞重點研究實驗室）**and "**Cord Blood Library**"**（臍帶血庫）**projects, their factory roof-cappings are completed, the equipments are already in place in succession. For the "**Placenta Blood Albumin**"**（人胎盤血白蛋白）**project (under the co-operation with National Vaccine & Serum Institute（北京生物製品所））, its factory roof-capping is completed, orders for equipment were placed. The construction of the office and inspection of the building of the Group is completed. The Group had been granted a parcel of industrial land with an area of approximately 521 mu in Shawen Ecological Park Zone（沙文生態園區）in Guiyang High and New Technology Zone（貴陽高新區）with extremely preferential policies, and the construction of its phase one project (Hua Han Group's pharmaceutical manufacturing base project in Shawen Ecological Park Zone) had been commenced.

For cost control, the Group will potentially pay more attention and strive to control the escalating cost of production. During the Year, the Group continued to adopt the following strategies: annual bulk purchase of Chinese medicine materials in which total purchase volume and unit price will be determined on a one-off basis, and for important purchasing contracts, the Group will implement a payment-in-advance system. Bulk goods purchasing will be made by tender. In budget management, staff costs of different departments and subsidiaries will be required by authorisation and approval and key areas of the approval will be reviewed. These measures had effectively decreased the Group's pressure as a result of rising costs.

## INVESTMENT AND CO-OPERATION

During the Year, the Group sold approximately 15% of issued share capital of Magic Holdings International Limited and recorded gross cash receipts of approximately HK$450.9 million. The Group's investment in beauty product business had generated enormous returns.

The "**Human Albumin**"**（人血白蛋白）**project launched by the Group together with National Vaccine & Serum Institute（北京生物製品所）, including "**Placenta Pills**"**（人胎盤片）**and "**Placenta Tissue Fluid Injection**"**（人胎盤組織液注射劑）**, was approved by the board of the China National Biotech Group（中國生物技術集團）and specific agreements are under negotiation.

The Group had carried out a co-operation project with Beike Bio-technology（北科生物）, being "**Guizhou Province Stem Cell Regeneration Medicine Industrialisation Base**"**（貴州省幹細胞再生醫學產業化基地）**. Currently, the construction of Key Laboratory of Stem Cell Research and Stem Cell Library are in progress. At the same time, the co-operation on the "**ACTL™ Anti-Cancer Cellular Immunotherapy**" **（ACTL™抗腫瘤靶向性細胞免疫治療技術）**was initiated.

## TEAM BUILDING

During the Year, the Group continued to forge a professional, diligent and responsible team which is full of enthusiasm in business venture and innovative spirit. Mr. Yao Chang Fa, a member of management of the Group, was awarded the "**Outstanding Entrepreneur of Guizhou Province**"(**貴州省優秀企業家**) in late 2011.

## PROSPECTS

The relevant data shows that the PRC has become the world's third largest drugs market in 2011, and will surpass Japan to become the world's second largest drugs market by 2018. Therefore, our continuing goal is to become a highly competitive pharmaceutical group in sharing the achievements of high-speed growth of the pharmaceutical market in the PRC, become the enterprise with unique innovative products and technology in the PRC pharmaceutical market and possess comprehensive marketing network with abundant operational resources.

Meanwhile, the bio-pharmaceutical and bio-technological industry have a rapid development worldwide. Authoritative experts estimate that while new innovation of chemical medicines become more and more difficult and competition is intensifying, bio-pharmaceutical products will account for more than one-third of the total drug sales by 2020. According to this trend, China introduced "**the 12th Five-Year Plan in Pharmaceutical Industry** "(**醫藥工業十二五規劃**) recently, which listed the bio-pharmaceutical and bio-technological industry as a priority sector and offered preferential policies in research and development, technological transformation and market access. It can be predicted that the optimistic outlook for the development of bio-pharmaceutical and bio-technological industry has arrived.

The Directors consider that, against the backdrop of the continuous improvement of industry sentiment and preferential policies and under the guidance of the leaping-forward development plan, the Group will continue to promote the overall development strategies that have already been set. These strategies are to consolidate the channel and internal resources system, adapt to the industry and market changes brought by the "**new medical reform**"(**新醫改**), perfect the business model that will drive the overall growth of prescription drugs with the exclusive products in National Medical Insurance Catalogue being the core products, so as to establish the opportunity of being a national brand and accelerate the growth of OTC products; respond to the policy-oriented trend and expand the market coverage and market share of drugs in the National Essential Drugs Catalogue; speed up the research and development of new bio-albumin products, placenta blood products and stem cell products that have independent intellectual property rights to form the Group's on-going competitiveness based on innovative products and innovative technology; continue to structure the management system that can reflect positively the market value of the Group, so as to enhance and protect shareholders' interests.

The specific missions are to:–

1. take marketing as the lead to further improve our market share. Prescription drugs marketing: while continuing to have "**Yi Fu**"(**易孚**), "**Yi Bei**"(**易貝**), "**Qijiao Shengbai Capsules**"(**芪膠升白膠囊**) and "**Zhisou Huatan Pills**"(**止嗽化痰丸**) as principal products, there is also the need to prepare well for having the principal products leading the development of other products. Increase working efforts on doctors so that doctors will use those products as principal prescription in their medical diagnosis. Meanwhile, we continue to promote the "**Village Plan**"(**鄉村計劃**). Through the penetration of sub-county market and community hospitals, the Group will enhance the market share of product categories under the National Essential Drugs Catalogue. OTC drugs marketing: by establishing the opportunity of "**Fuke Zaizaowan**"(**婦科再造丸**) **(Capsules)** to be the number one brand of curing cold disease for Chinese females, and while stepping its foothold onto the nationwide and important regions of the drugs chain store mechanism, we will follow up by investing in advertising and floor-to-floor promotion to increase single shop sales. In addition, the "**Golden Peptides**"(**金紫肽**) products are adopted to explore the healthcare market with huge growth potential. We set up different marketing strategies based on the product characteristics of "**Golden Peptides**"(**金紫肽**) together with our possessed and matured beauty parlors and professional chain stores to achieve rapid breakthroughs in the market.

2. reorganise the planning layout of the Group and accelerate internal resources integration under the guidance of the State's new GMP standards. According to the Group's plans, phase one of the new plant at the Guiyang Shawen Ecological Park (貴陽沙文生態園區) has commenced construction and it will be developed into a Chinese patent drugs production base with advanced equipment and technology in the PRC. Seven newly-built dosage production workshops, including capsules, tablets, syrup, tincture and injection, are scheduled to complete construction by the end of 2013 with a total planned investment of over HK$800 million. At the same time, we will accelerate the construction of the biological products and technical production base which uses human placenta and cord blood as basic materials. Of which, the production line of "**Golden Peptides**"(**金紫肽**) products will be put into operation by October, 2012; the "**Key Laboratory of Stem Cell Research"**(**幹細胞重點研究實驗室**) and "**Stem Cell Library"**(**幹細胞庫**) will be put into operation by early 2013; the "**Human Nerve Growing Factor Injection**"(**人神經生長因子注射劑**) will be put into operation in 2013 after passing the GMP certification; the placenta product projects like "**Placenta Blood Albumin**"(**人胎盤血白蛋白**) will be completed by the end of 2013 and the biological projects are planned to invest a total of approximately HK$600 million. These projects will fully capitalise on the preferential policies granted by the government according to the State's new GMP standards and the Group's long-term development plan. We will emphasise on product quality, strengthen the accountability system, strictly control all aspects such as purchase of raw materials, processing, inspection, storage and transportation, and thereby realising the participation in quality management by all staff throughout the entire process in all directions.

3. firmly grasp the current valuable opportunities for being innovative in new drugs and technologies so as to accelerate the development of new products and new technologies. Based on the Group's product chain plan and market demand, by leveraging on the existing platform, we aim to create new form of co-operation mechanism to conduct multi-level co-operation with domestic and international medicine research and development institutions with excellent innovation capacity in the areas of bioengineering protein drugs and polypeptide products, genetic therapy medicine and stem cell therapy products, and recruit outstanding scientists to strengthen the Group's research and development team. We will utilise effectively the government's encouraging innovation fund to make free and continuous investments and constantly launch new products and technologies. At the same time, by better grasping and controlling the research and development rhythm correctly, we will refine the arrangements between investment and progress and introduce risk control mechanism and respective positioning set up, thereby the research and development risk can be avoided realistically.

4. introduce concept and approach of market capitalisation management based on the distinct characteristics of Hong Kong capital market. By arranging regular meetings among management and investors, reporting the results and primary working status of the Group in a timely manner to enhance the communication with investors; through the re-engineering of the Group's strengths in strategy, product, competitiveness, growth, financial planning and costs, and human resources, the mechanism of the Group's value will be more complete and clearer, and will induce the capital market to form an accurate evaluation of the Group, thereby resulting in a stable growth of market value aligning with the Group's development.

5. accelerate the Group's internal human resources integration and set up advanced research and development, production, marketing and management teams in traditional Chinese medicine, bio-pharmaceutical products and technology and healthcare products platforms. Increase our efforts in recruiting talents in high-level technology, production management, and marketing and sales based on the development needs of the Group's business. At the same time, the professional skills of existing staff will be continuously promoted. In addition, we will optimise the incentive mechanism and motivate our staff's enthusiasm in business venture and form a more executable, innovative, advancing and accommodating enterprise culture.

6. while actively developing the PRC market, the Group will enhance our relationship with the government. We will proactively incorporate the Group's development into the massive domestic economic development layout and devote more contributions in increasing government fiscal income, solving unemployment problems and driving up the development of relevant industries; accelerate the development of biological products and technology to become the front-runner of the high-technology sector in the domestic economic industry layout; continue to strive for more investments and support from the respective government authorities regarding the development and technology re-engineering of the Group.

In general, the Group will forge ahead, take proactive move, and strive for further development. At the same time, we will adopt a prudent approach in view of the real-life situation, protect ourselves against risks and strive to reward our shareholders with excellent business performance.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 30 June 2012, the Group had unpledged cash and bank balances of approximately HK$2,095.3 million (2011: approximately HK$1,456.6 million). Its gearing ratio calculated as a ratio of total debt of bank borrowings and obligations under finance leases to equity attributable to owners of the Company was approximately 0.8% (2011: approximately 1.0%). Net current assets were approximately HK$2,529.2 million (2011: approximately HK$2,179.2 million) and the current ratio was maintained at the healthy level of approximately 11.9 (2011: approximately 10.0) as at 30 June 2012.

The finance costs of the Group for the Year amounted to approximately HK$2.96 million (2011: approximately HK$2.5 million), representing approximately 0.2% (2011: approximately 0.2%) of the Group's total turnover and there is no significant change in finance costs over corresponding period in 2011.

## CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any material contingent liabilities (2011: Nil).

## BANK BORROWINGS

As at 30 June 2012, the Group had outstanding bank loans of approximately HK$31.7 million from the banks in the PRC (2011: approximately HK$32.3 million), which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi.

As at 30 June 2012, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain prepaid land lease payments and buildings of the Group; and (iii) corporate guarantees executed by certain subsidiaries of the Company.

## SEASONAL OR CYCLICAL FACTORS

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

## FOREIGN EXCHANGE EXPOSURE

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

## TREASURY POLICIES

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

## COMMITMENTS

As at 30 June 2012, the Group had contracted commitments of approximately HK$0.7 million (2011: approximately HK$0.7 million), approximately HK$78.2 million (2011: approximately HK$84.1 million), approximately HK$61.1 million (2011: nil) in respect of purchases of technical knowhow/patent, purchases of property, plant and equipment and purchase of land respectively. As at 30 June 2012, the Group also had capital expenditure authorised but not contracted for in respect of purchase of properties, plant and equipments amounted to approximately HK$816 million (2011: nil).

## EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2012, the continuing business of Group had a total of 887 employees (2011: 1,130), of whom 877 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Year, staff costs under continuing business of the Group (including Directors' remunerations) amounted to approximately HK$94,944,000 (2011: approximately HK$32,627,000). Staff costs under continuing business of the Group accounted for 7.2% of the Group's turnover (2011: 2.8%) during the Year. The Group participates in retirement benefit schemes for its staff both in Hong Kong and the PRC.

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

## FINAL DIVIDEND, SPECIAL DIVIDEND AND BONUS ISSUE

The Directors recommended the payment of a final dividend of HK3.4 cents per share of the Company ("**Share**") and a special dividend of HK5 cents per Share for the Year (2011: final dividend of HK3.4 cents) totalling approximately HK$202,468,000, and a bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares (2011: bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares) held to the shareholders of the Company whose Shares are on the register of members on Thursday, 27 December 2012, subject to the approval of the shareholders of the Company in the Company's forthcoming annual general meeting ("**Annual General Meeting**"), and if passed, the final dividend and special dividend together with share certificate of the bonus issue Share will be paid and posted respectively on Friday, 11 January 2013.

## DIRECTORS

### Executive Directors

***Mr. Zhang Peter Y.* (張岳)**, aged 50, is the Chairman of the Company and one of the founders of the Group. Mr. Zhang graduated from Guiyang Teacher Training College (貴陽師範學院) in 1982 with a Bachelor Degree in Chemistry. Mr. Zhang has been appointed as a standing member of the Fifth Chinese People's Political Consultative Conference in Yunyan District of Guiyang City (貴陽市雲岩區第五屆政協常委). In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Zhang was awarded the title of 1998-2002 Guiyang City Young and Middle-aged Technological Leader (貴陽市一九九八至二零零二年度中青年科技骨幹) in 2000. Given his expertise in the area of chemistry and his extensive knowledge in the pharmaceutical industry, Mr. Zhang is in charge of the Group's overall strategic planning. With more than 20 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's strategic management, financial planning and control. Mr. Zhang is a controlling shareholder and a director of Bull's-Eye Limited, a controlling shareholder of the Company.

***Mr. Deng Jie* (鄧杰)**, aged 48, is the Chief Executive Officer and an executive Director of the Company, and one of the founders of the Group. Mr. Deng graduated from Peking University (北京大學) in 1985 with a Bachelor Degree in Law. Mr. Deng was given the award of Outstanding Young Entrepreneur of the State (全國優秀青年企業家) and Top Ten Outstanding Youths in Guizhou (貴州省十大傑出青年) in 1993 and 1994 respectively, and was appointed as a member of the Eighth and the Ninth Chinese People's Political Consultative Conference in Guizhou (貴州省第八屆及第九屆政協委員) since 1998. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. He has over 20 years of experience in corporate management, and is responsible for the Group's strategic management and operation management. Over the past 20 years or so, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team. Mr. Deng is a director of Bull's-Eye Limited, a controlling shareholder of the Company.

***Mr. Long Xian Feng* (龍險峰)**, aged 50, is the General Manager of the Group and an executive Director of the Company. Mr. Long graduated from Peking University (北京大學) in 1985 with a Bachelor Degree in Law. In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Mr. Long joined the Group in 1993 and is responsible for the Group's research and development of new products. Since joining the Group, Mr. Long has led the Group to successfully developing and introducing many pharmaceutical products. Mr. Long is responsible for the operations of the Group's businesses in the PRC.

***Mr. Zhou Chong Ke* (周崇科)**, aged 51, is an executive Director of the Company. Mr. Zhou graduated from Guiyang Medical University (貴陽醫學院) in 1983 with a Bachelor Degree in Medicine. He also has a postgraduate degree certificate in Psychiatry from West China University of Medical Sciences (華西醫科大學精神醫學系). He joined the Group in 2007 and is responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group. Prior to joining the Group, he has assumed senior positions in certain renowned pharmaceutical companies in PRC. With his excellent industry background, apart from primarily responsible for the sales-integrated operations of business for the pharmaceutical enterprises under the Group currently, Mr. Zhou is also responsible for assisting the Chief Executive Officer the operation of external merger and acquisition projects and maintains the close relationships among the Group and its strategic partners (including the research institutes).

## Non-Executive Directors

***Mr. Wee Ee Lim* (黃一林)**, aged 51, a non-executive Director of the Company. Mr. Wee holds a Bachelor of Arts (Economics) Degree from Clark University. He is the President and Chief Executive Officer of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He also holds directorships of various public listed companies namely, United Industrial Corporation Limited, Singapore Land Limited, UOL Group Limited and Pan Pacific Hotels Group Limited. He joined the Group in 2005.

***Mr. Tarn Sien Hao* (譚顯浩)**, aged 45, a non-executive Director of the Company. Mr. Tarn holds a Bachelor of Science Degree from Columbia University, a Bachelor of Arts Degree from the State University of New York and a Master of Business Administration Degree from the University of Dubuque. He is the Group General Manager of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited. He joined the Group in 2006.

***Ms. Lim Seok Bin Zann* (林舒敏)**, aged 35, was appointed as an alternate director to Mr. Wee Ee Lim in 2011. Ms. Lim holds a Master Degree in Business Administration from INSEAD and Tsinghua University. She is a member of the Institute of Certified Public Accountants of Singapore. Ms. Lim is the Group Financial Controller and Company Secretary of Haw Par Corporation Limited, a public company listed on the Singapore Exchange Securities Trading Limited.

## Independent Non-Executive Directors

***Professor Kung Hsiang Fu* (孔祥復)**, aged 70, is an independent non-executive Director of the Company. Professor Kung is an academician (院士) of the Chinese Academy of Sciences (中國科學院). He has over 38 years of experience in medical research. During 1986-1998, he was the Chief of the Laboratory of Biochemical Physiology National Cancer Institute of the National Institute of Health in U.S.A. for 12 years. He has published over 300 scientific articles and is the inventor of a number of U.S. patents. Professor Kung has served as the director & chair professor of the Institute of Molecular Biology of the University of Hong Kong (香港大學) for 7 years since 1998. Currently, he is a Professor of Virology of the Centre of Emerging Infectious Diseases of the Chinese University of Hong Kong (香港中文大學). He joined the Group in 2002.

***Professor Tso Wung Wai* (曹宏威)**, aged 71, is an independent non-executive Director of the Company. Professor Tso holds a Doctorate Degree in Biochemistry from the University of Wisconsin-Madison in U.S.A. After his honorable retirement from teaching at the department of biochemistry of the Chinese University of Hong Kong (香港中文大學) for 24 years, Professor Tso is currently an adjunct professor of the department. Professor Tso's research interests include immobilized cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong Government for his meritorious public and community services. He joined the Group in 2002.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

***Mr. Hon Yiu Ming, Matthew*（*韓耀明*）**, aged 52, is an independent non-executive Director of the Company. Mr. Hon graduated from the University of East Asia, Macau（澳門東亞大學）with a Master Degree in Business Administration. He is a Certified Public Accountant (Practicing) in Hong Kong and is now the sole-proprietor of Y. M. Hon & Co., a Hong Kong Certified Public Accountants firm. Mr. Hon is the Chairman of the Remuneration Committee and the Audit Committee of the Company. He joined the Group in 2004.

**Senior Management**

***Mr. Wong Ming Chun*（*王名俊*）**, aged 31, is the Company Secretary of the Company and the Financial Controller of the Group, and is responsible for the Group's financial management and internal auditing. He is a member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong graduated from The Hong Kong University of Science and Technology（香港科技大學）with a Bachelor Degree in Business Administration (major in Accounting). Mr. Wong has over 9 years of experience in auditing, accounting and financial management. He joined the Group in 2008.

***Mr. Chen Lei*（*陳磊*）**, aged 41, is the assistant to General Manager of the Group. Mr. Chen graduated from Jiangxi University of Finance and Economics（江西財經大學）in 1997. He was awarded as the Senior Finance Manager by International Institute of Management（國際管理師協會）in 2005. He was obtained the Master of Business Administration Degree in Executive Management by Royal Roads University of Canada in 2009. He joined the Group in 2002 and is currently responsible for assisting the Group's General Manager in financial management of the operations in Mainland China. Prior to 30 June 2012, Mr. Chen was an executive director of Magic Holdings International Limited, a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). He has resigned from the position as executive director of Magic Holdings International Limited on 30 June 2012.

***Mr. Yao Chang Fa*（*姚廠發*）**, aged 47, is the Chairman and the General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）. Mr. Yao graduated from Guiyang Chinese Medical College（貴陽中醫學院）in 1987. He acquired the professional qualification of principal Chinese medical practitioner in 1996, and graduated from Beijing University of Aeronautics and Astronautics（北京航空航天大學）in postgraduate studies in business administration in 2004. Mr. Yao joined the Group in 1992 and is responsible for the operation management functions for Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）.

***Mr. Zhang Jin Yi*（*張勁翼*）**, aged 50, is the General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）. Mr. Zhang graduated from Northwestern Polytechnical University（西北工業大學）in 1984 with a Bachelor Degree in Engineering and acquired the title of senior engineer. He joined the Group in 2004 and is responsible for the production management functions for Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

***Mr. Zhang Kun Mou (張昆謀)***, aged 49, is the General Manager of Guizhou Factorr Bio-Technology Co., Ltd.(貴州泛特爾生物技術有限公司). Mr. Zhang graduated from Harbin Engineering University (哈爾濱工程大學) (formerly known as Harbin Vessel Engineering College (哈爾濱船舶工程學院)) and obtained a Bachelor Degree in Engineering in 1984. In 1989, he graduated from Shanghai Donghua University (上海東華大學) (formerly known as China Textile University (中國紡織大學)), with a Master Degree in Engineering and served as a senior engineer. Mr. Zhang joined the Group in 2000 and is responsible for managing the production facilities of Guizhou Factorr Bio-Technology Co., Ltd. (貴州泛特爾生物技術有限公司). Prior to 30 June 2012, Mr. Zhang was an executive director of Magic Holdings International Limited, a public company listed on the Main Board of the Stock Exchange. He has resigned from the position as executive director of Magic Holdings International Limited on 30 June 2012.

***Mr. Yang Hong Ming (楊洪銘)***, aged 48, is the Chairman of Guilin Pavay Gene Pharmaceutical Co., Ltd.(桂林華諾威基因藥業有限公司). Mr. Yang graduated from the Department of International Trade, University of International Business and Economics (對外經濟貿易大學) in 1985 with a Bachelor Degree in Economics. After graduation, Mr. Yang worked in the China Resources Group (中國華潤集團公司) and acquired the title of senior economist and was appointed as the standing committee member of the First and Second Chinese People's Political Consultative Conference in Guilin (桂林市第一、二屆政協常委). Mr. Yang joined the Group in 2008 and is responsible for the strategic planning management and external relations of Guilin Pavay Gene Pharmaceutical Co., Ltd.(桂林華諾威基因藥業有限公司).

***Ms. Niu Yi (牛藝)***, aged 37, is the Chief Inspector of Human Resources Administration of the Group. She joined the Group in 1996 and is overall responsible for the Group's human resources, administration and corporate culture build up. Ms. Niu graduated from Guizhou Normal University (貴州師範大學) majoring in English with a Bachelor Degree in Literature in 1996, and obtained a Master Degree in Business Administration from Guizhou University (貴州大學) in 2007. She acquired the professional qualification of Human Resources Manager in 2005, and was awarded the Global Career Development Facilitator (GCDF) Certification by the Consulting and Education Certification Center of the USA (美國諮詢與教育認證中心) in 2009. Ms. Niu has solid theoretical foundation and extensive experience in human resources administration.

***Mr. Luo Zhan Biao (羅戰彪)***, aged 34, is the Deputy General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Luo graduated from Guiyang Chinese Medical College (貴陽中醫學院) majoring in Chinese Medicine with Bachelor Degree in Science in 2000, and was qualified as Engineer in 2011. Mr. Luo joined in the Group in 2000, and is mainly responsible for assisting the General Manager in business operation.

***Mr. Zou Bang Yin (鄒邦銀)***, aged 37, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司), being in charge of technological service, product development and quality control functions of the company. Mr. Zou graduated from Beijing Institute of Technology (北京理工大學) majoring Biochemical Engineering in 1999, and obtained a Master Degree in Medicine from Guiyang Medical College (貴陽醫學院) with a qualification certificate of national licensed pharmacist in 2002. He joined the Group in 1999.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

***Mr. Zhang Shou Xue (張壽學)***, aged 43, is the Factory Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）. He graduated from Guiyang Chinese Medical College（貴陽中醫學院）in 1989. Mr. Zhang acquired the qualifications of chief pharmacist and licensed pharmacist, and has extensive experience in medicine production and management with comprehensive capabilities of total quality management. He was honored as the advanced individual on technological renovation（技術改造先進個人）of Guiyang City in 2009. Mr. Zhang joined in the Group in 2001, and is responsible for assisting the General Manager in production management of Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）.

***Mr. Dai Li Gui (戴禮貴)***, aged 43, is the Chief Inspector of Marketing function of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）and is responsible for the marketing functions of biological medicine. Mr. Dai graduated from Department of Medicine, Guiyang Medical College（貴陽醫學院）in 1992 with a Bachelor Degree in Medicine. In 2002, he attended a part-time Master Degree course in regard to Oncology and doctor's degree courses in regard to Oncology and Medical Consultation at the Western China University of Medical Science（華西醫科大學）. He is currently studying a doctorate degree course. Before joining the Group in 2000, Mr. Dai served the Pulmonary Hospital（肺科醫院）of Guiyang City as a clinician for 8 years.

***Mr. Zhang Ming Jiang (張明江)***, aged 48, is the Chief Engineer of Guizhou Factorr Bio-Technology Co., Ltd.（貴州泛特爾生物技術有限公司）. Mr. Zhang graduated from Department of Pharmacy, West China University of Medical Science（華西醫科大學）in 1986 and obtained a Bachelor Degree in Medicine. He joined the Group in 2007 and is responsible for the product research and development of drugs and GMP implementation works of Guizhou Factorr Bio-Technology Co., Ltd（貴州泛特爾生物技術有限公司）.

***Mr. Wei Zhong Ming (韋忠銘)***, aged 44, is the Vice General Manager of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）. Mr. Wei graduated from Department of Chemistry, Nankai University（南開大學）in 1990 with a Bachelor Degree in Chemistry. After graduation, Mr. Wei worked in Guilin No. 3 Pharmaceutical Factory（桂林市第三製藥廠）, Guilin Medical University（桂林市醫學院）and Beijing Pilot Test Base of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司北京中試基地）. He is one of the major researchers and testers for the two State category one new medicines（國家一類新藥）of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）. Mr. Wei joined the Group in 2008 and is responsible for the production technology and quality control of Guilin Pavay Gene Pharmaceutical Co., Ltd.（桂林華諾威基因藥業有限公司）.

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's profit for the Year and the state of affairs of the Company and of the Group at 30 June 2012 are set out in the financial statements on pages 43 to 46 of the annual report.

The Directors recommend the payment of a final dividend of HK3.4 cents per ordinary share of HK$0.10 each in the share capital of the Company ("**Share**") and a special dividend of HK5 cents per Share in respect of the Year, to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on Thursday, 27 December 2012. The proposed final dividend and special dividend will be paid on or about Friday, 11 January 2013 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting ("**Annual General Meeting**") of the Company to be held on Friday, 14 December 2012. This recommendation has been incorporated in the financial statements as an allocation of share premium account within the capital and reserves section of the statement of financial position.

The Directors also recommended a bonus issue of Shares on the basis of one new ordinary Share for every five existing ordinary Shares held by the Shareholders whose names appear on the register of members on Thursday, 27 December 2012, subject to the approval of the Shareholders in the Annual General Meeting. For further details of the bonus issue, please refer to the circular despatched to the Shareholders together with this report.

## CLOSURE OF REGISTER OF MEMBERS

The forthcoming Annual General Meeting of the Company is scheduled on Friday, 14 December 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 12 December 2012 to Friday, 14 December 2012, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 11 December 2012.

The proposed final dividend, special dividend and the bonus issue of shares are subject to the passing of ordinary resolutions by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend, special dividend and the bonus issue of shares is Thursday, 27 December 2012. For determining the entitlement to the proposed final dividend, special dividend and the bonus issue of shares, the register of members of the Company will be closed from Friday, 21 December 2012 to Thursday, 27 December 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, special dividend and the bonus issue of shares, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, for registration not later than 4:30 p.m. on Thursday, 20 December 2012. The payment of final dividend, special dividend and the share certificates for the bonus shares will be made and despatched on Friday, 11 January 2013.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Company's published audited financial statements prepared on the basis set out therein, is set out on page 134 of this report. This summary does not form part of the audited financial statements of the Group.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL AND SHARE OPTIONS

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

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

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

## DISTRIBUTABLE RESERVES

At 30 June 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$1,290,984,000 (as at 30 June 2011: HK$1,225,672,000) of which approximately HK$202,468,000 has been proposed as a final dividend and a special dividend for the Year. The amount of approximately HK$1,023,649,000 (note 41(b)) standing to the credit of the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

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

## DIRECTORS

The Directors during the Year were:

**Executive Directors:**

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

**Non-executive Directors:**

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

**Independent non-executive Directors:**

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

In accordance with the article 108(A) of the Company's articles of association, Mr. Zhang Peter Y., Mr. Zhou Chong Ke and Professor Kung Hsiang Fu will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Zhang Peter Y., Mr. Zhou Chong Ke and Professor Kung Hsiang Fu being eligible, offers himself for re-election as Director at the forthcoming Annual General Meeting.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 21 of this report.

## DIRECTORS' SERVICE CONTRACTS

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

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

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

## DIRECTORS' REMUNERATION

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

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from those disclosed in note 49 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 30 June 2012, the interests and short positions of the directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | The Company/ name of associated corporation | Capacity | Number and class of securities/percentage in equity interest *(Note 1)* | Approximate percentage of interest |
|---|---|---|---|---|
| Mr. Zhang Peter Y. | The Company | Interest of controlled corporation | 694,607,289 Shares (L) *(Note 2a)* | 28.82% |
| | The Company | Beneficial owner | 2,280,000 Shares (L) *(Note 2b)* | 0.09% |
| Mr. Deng Jie | Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("**GHXM**") | Interest of controlled corporation | 5% (L) *(Note 3)* | 5% |
| | The Company | Beneficial owner | 2,280,000 Shares (L) *(Note 2b)* | 0.09% |
| Mr. Long Xian Feng | The Company | Beneficial owner | 2,280,000 Shares (L) *(Note 2b)* | 0.09% |

| Name of Director | The Company/ name of associated corporation | Capacity | Number and class of securities/percentage in equity interest *(Note 1)* | Approximate percentage of interest |
|---|---|---|---|---|
| Mr. Zhou Chong Ke | The Company | Beneficial owner | 2,280,000 Shares (L) *(Note 2b)* | 0.09% |
| Mr. Wee Ee Lim | The Company | Beneficial owner | 2,280,000 Share (L) *(Note 2b)* | 0.09% |
| Mr. Tarn Sien Hao | The Company | Beneficial owner | 2,337,600 Share (L) *(Note 2c)* | 0.10% |
| Professor Tso Wung Wai | The Company | Beneficial owner | 2,280,000 Shares (L) *(Note 2b)* | 0.09% |
| Professor Kung Hsiang Fu | The Company | Beneficial owner | 3,702,720 Shares (L) *(Note 2d)* | 0.15% |
| Mr. Hon Yiu Ming, Matthew | The Company | Beneficial owner | 2,424,000 Shares (L) *(Note 2e)* | 0.10% |

*Notes:*

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

2a. These 694,607,289 Shares were held by Bull’s-Eye Limited (“**BEL**”), more than one-third of the issued share capital of which was beneficially owned by Mr. Zhang Peter Y.. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Mr. Zhang Peter Y. was deemed to be interested in all the Shares held by BEL.

2b. These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company. These options, all of which remained exercisable as at 30 June 2012, are exercisable at the subscription price of HK$2.092 (being adjusted to HK$1.743 at 13 January 2012) per Share at any time during a period of two years commencing from and including 28 July 2011 to 27 July 2013.

2c. These 2,337,600 Shares included 2,280,000 shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company as mentioned in note (2b) above.

2d. These 3,702,720 Shares included 2,280,000 shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company as mentioned in note (2b) above.

2e. These 2,424,000 Shares included 2,280,000 shares which would be allotted and issued upon the exercise in full of the options granted under the share option scheme of the Company as mentioned in note (2b) above.

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

Save as disclosed above, as at 30 June 2012, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interests and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

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

Eligible participants of the Scheme include the following:

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

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

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

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

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

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

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

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

As at the date of this report, the total number of Shares of the Company available for issue under the Scheme and any other share option scheme of the Group is 200,860,992, representing approximately 8.33% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 16 December 2011, being the date of the 2011 Annual General Meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

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

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

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

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

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

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

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

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

The share options exercised during the Year resulted in the issue of 34,280,000 ordinary Shares.

At the date of this report, the Company had 114,000,000 share options outstanding under the Scheme, which represented approximately 4.73% of the Company's Shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 114,000,000 additional ordinary Shares.

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

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Name or Category of participants** | **At 1 July 2011** | **Granted during the Year** | **Adjustment made during the Year** *(Note (a))* | **Exercised during the Year** | **Cancelled or lapsed during the Year** | **At 30 June 2012** | **Date of grant of share options** | **Exercise period of share options** | **Exercise price of share options** *(Note (b))* *HK$* | **Price of the Share at the date immediately preceding the date of grant of options** *(Note (c))* *HK$* |
| **Directors** | | | | | | | | | | |
| *Executive* | | | | | | | | | | |
| Mr. Zhang Peter Y. | 1,560,000 | 1,900,000 | 380,000 | (1,560,000) | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Deng Jie | 1,560,000 | 1,900,000 | 380,000 | (1,560,000) | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Long Xian Feng | 15,600,000 | 1,900,000 | 380,000 | (15,600,000) | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Zhou Chong Ke | 12,000,000 | 1,900,000 | 380,000 | (12,000,000) | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Bian Shu Guang *(Note (d))* | 1,560,000 | – | – | (1,560,000) | – | – | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| *Non-executive* | | | | | | | | | | |
| Mr. Wee Ee Lim | – | 1,900,000 | 380,000 | – | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Tam Sien Hao | – | 1,900,000 | 380,000 | – | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| *Independent Non-executive* | | | | | | | | | | |
| Professor Kung Hsiang Fu | – | 1,900,000 | 380,000 | – | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Professor Tso Wung Wai | – | 1,900,000 | 380,000 | – | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| Mr. Hon Yiu Ming Matthew | – | 1,900,000 | 380,000 | – | – | 2,280,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| | 32,280,000 | 17,100,000 | 3,420,000 | (32,280,000) | – | 20,520,000 | | | | |
| Other employees *(Note (e))* | 2,000,000 | 77,900,000 | 15,580,000 | (2,000,000) | – | 93,480,000 | 28 July 2011 | 28 July 2011 to 27 July 2013 | 1.743 | 1.78 |
| | 34,280,000 | 95,000,000 | 19,000,000 | (34,280,000) | – | 114,000,000 | | | | |

*Notes:*

(a) *In accordance with the Scheme, the exercise price of the share options was adjusted from HK$2.092 per share to HK$1.743 per share, and the total number of Shares to be issued upon exercise of the outstanding share options was also adjusted correspondingly on 13 January 2012, as a result of the bonus issue of Shares by the Company in January 2012.*

(b) *Pursuant to the Scheme, the exercise price of the share option of HK$1.743 per Share is adjusted from HK$2.092 per share due to the bonus issue of Shares as explained in note (a) above, subject to further adjustment in the case of capitalisation of profits or reserves, rights issue, consolidation, sub-division, reduction of the Company's share capital, or other similar changes in the Company's share capital.*

(c) *The price of the Shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date immediately preceding the date of the grant of the options (being adjusted from HK$2.14 per Share to HK$1.78 per Share due to the bonus issue of Shares as explained in note (a) above).*

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

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

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

After having made reasonable enquiry, the Directors are aware that as at 30 June 2012, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

| **Name of shareholder** | **Number of Shares** *(Note 1)* | **Nature of interest** | **Approximate percentage of interest** |
|---|---|---|---|
| BEL *(Note 2)* | 694,607,289 (L) | Beneficial owner | 28.82% |
| Liu Yu *(Note 3)* | 696,887,289 (L) | Interest of spouse | 28.91% |
| Haw Par Pharmaceutical Holdings Pte. Ltd | 400,173,984 (L) | Beneficial owner | 16.60% |
| Haw Par Corporation Limited *(Note 4)* | 400,173,984 (L) | Interest of controlled corporation | 16.60% |
| Atlantis Capital Holdings Limited *(Note 5)* | 287,700,000 (L) | Interest of controlled corporation | 11.94% |

| Name of shareholder | Number of Shares *(Note 1)* | Nature of interest | Approximate percentage of interest |
|---|---|---|---|
| Liu Yang *(Note 6)* | 287,700,000 (L) | Interest of controlled corporation | 11.94% |
| Kingston Finance Limited | 285,600,000 (L) | Person having a security interest in Shares | 11.85% |
| Ample Cheer Limited *(Note 7)* | 285,600,000 (L) | Interest of controlled corporation | 11.85% |
| Best Forth Limited *(Note 8)* | 285,600,000 (L) | Interest of controlled corporation | 11.85% |
| Chu Yuet Wah *(Note 9)* | 285,600,000 (L) | Interest of controlled corporation | 11.85% |

*Notes:*

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

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

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

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

5. Atlantis Investment Management (Hong Kong) Limited which is wholly-owned company of Atlantis Capital Holdings Limited, held 287,700,000 shares in the Company in the capacity of investment manager. By virtue of the provisions of Division 2 and 3 of Part XV of the SF Ordinance, Atlantis Capital Holdings Limited is deemed to be interested in all the Shares in which Atlantis Investment Management (Hong Kong) Limited is interested.

6. Atlantis Capital Holdings Limited is owned as to 100% by Ms. Liu Yang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Ms. Liu Yang is deemed to be interested in all Shares in which Atlantis Capital Holdings Limited is deemed to be interested.

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

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

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

Save as disclosed above, as at 30 June 2012, no person, or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

## MANAGEMENT CONTRACTS

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## AUDIT COMMITTEE

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

## EVENTS AFTER THE REPORTING PERIOD

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

## AUDITORS

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

On behalf of the Board

**Zhang Peter Y.**
*Chairman*

Hong Kong
28 September 2012

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Board has set up the remuneration committee of the Board ("**Remuneration Committee**") with written terms of reference prepared in accordance with the Code Provisions and has adopted a written set of terms of reference of the audit committee of the Board ("**Audit Committee**") which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year ended 30 June 2012 ("**Year**"), the Company has complied with the Code Provisions.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

The Board is currently composed of four executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Deng Jie as the chief executive officer, Mr. Long Xian Feng and Mr. Zhou Chong Ke; two non-executive Directors comprising Mr. Wee Ee Lim (Ms. Lim Seok Bin Zann as his alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 17 to 19 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company. Each non-executive Director is appointed for a term of three years and each independent non-executive Director is appointed for a term of two years.

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

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

(2) discussed future business plans of the Group;

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

(4) determined the policy for the corporate governance of the Company, and duties under Code D.3.1.

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

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

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

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

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

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

The Company provides relevant reading materials to all of the Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director to ensure that the Directors' contribution to the Board remains informed and relevant. In addition, all Directors have participated in external forums or training courses on relevant topics such as listing rules updates and corporate governance which count towards Continuous Professional Development training.

With the support of the executive Directors and the management of the Group, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate information, which are complete and reliable, in a timely manner. Each of the Directors keeps abreast of his/her responsibilities as a director of the Company and of the conduct, business activities and development of the Company. Monthly updates are provided to Directors to ensure that they are aware of the business and regulatory environment in which the Group conducts its business.

The Company renewed the directors' and officers' liability insurance for members of the Board in January 2012 to provide protection against claims arising from the lawful discharge of duties by the Directors.

## NOMINATION COMMITTEE

The Nomination Committee was established by the Board with written terms of reference with effect from 30 March 2012, comprising three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai, Mr. Hon Yiu Ming, Matthew; one executive Director Mr. Deng Jie and one non-executive Director Mr. Wee Ee Lim (Ms. Lim Seok Bin Zann as his alternate). Its duties include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee has reviewed the existing policy for the nomination of directors, the nomination procedures and the process and criteria and believes that they are fair and reasonable and is in the best interests of the shareholders of the Company as a whole.

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

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

## REMUNERATION COMMITTEE

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

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

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

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

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

## REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by bands for the year ended 30 June 2012 is set out below:

| | **Number of senior management** |
|---|---|
| Nil to HK$2,000,000 | 13 |

## AUDITORS' REMUNERATION

During the Year, the auditors of the Company provided audit services to the Group at the fee of HK$2,000,000.

## AUDIT COMMITTEE

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

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

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

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

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

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

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

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

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

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

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2012, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on page 41 to 42 of the annual report of the Company.

## INTERNAL CONTROL

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

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the executive Directors of the Company. Plans and budgets are reviewed regularly to measure actual performance against the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Guidelines and procedures have been established for the approval and control of operating expenditures, capital expenditures and the unbudgeted expenditures and acquisitions.

The executive Directors of the Company review monthly management reports on the financial results and key operating statistics of each business unit and hold periodical meetings with the senior management and the finance team to review these reports, discuss business performance against budgets, forecasts and market conditions, and to address accounting and finance related matters.

The Board is responsible for internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for management use and for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

## SHAREHOLDERS' COMMUNICATIONS

A Shareholders Communication Policy was adopted in March 2012 to ensure that shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company arranges for the notice to its shareholders to be sent at least 20 clear business days before each of the annual general meetings of the Company. Separate resolutions are proposed at annual general meeting on each substantially separate issue, including the election or re-election of each individual director.

Pursuant to Article 64 of the articles of association of the Company, any shareholder holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Secretary of the Company at Unit 3405, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. Any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of meeting will explain the poll voting procedures at the relevant general meeting and answer any questions from shareholders on voting by poll.

The Board always welcomes shareholders' views and input. Shareholders may at any time send their enquiries by addressing them to the Company Secretary by post to Unit 3405, 34th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

There was no significant changes in the Company's constitutional documents during the Year.

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of Hua Han Bio-Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 133 which comprise the consolidated statement of financial position as at 30 June 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2012 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
28 September 2012

# CONSOLIDATED INCOME STATEMENT

*For the year ended 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 8 | **1,312,127** | 1,157,263 |
| Cost of sales | | **(456,269)** | (316,936) |
| Gross profit | | **855,858** | 840,327 |
| Other income | 10 | **13,510** | 7,392 |
| Selling and distribution expenses | | **(365,318)** | (419,007) |
| Administrative expenses | | **(84,564)** | (71,780) |
| Share-based payments | 43 | **(52,374)** | – |
| Impairment loss on intangible assets | 21 | **–** | (58,702) |
| Gain on disposal of a subsidiary | 46 | **–** | 9,975 |
| Gain on partial disposal and deemed partial disposal of interest in associates | 25 | **257,053** | 14,489 |
| Share of profit of associates | | **27,707** | 30,072 |
| Fair value gain on derivative financial instruments | 36 | **–** | 5,534 |
| Gain on deemed disposal of interests in associates | 25 | **125,335** | – |
| Finance costs | 11 | **(2,958)** | (2,475) |
| Profit before taxation | | **774,249** | 355,825 |
| Taxation | 12 | **(79,278)** | (73,478) |
| Profit for the year from continuing operations | | **694,971** | 282,347 |
| **Discontinued Operations** | | | |
| Profit for the year from discontinued operations | 13 | **–** | 192,944 |
| Profit for the year | 14 | **694,971** | 475,291 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | | |
| From continuing operations | | **657,228** | 274,885 |
| From discontinued operations | | **–** | 166,953 |
| | | **657,228** | 441,838 |
| Non-controlling interests | | | |
| From continuing operations | | **37,743** | 7,462 |
| From discontinued operations | | **–** | 25,991 |
| | | **37,743** | 33,453 |
| | | **694,971** | 475,291 |
| Earnings per share (in Hong Kong cents) | 18 | | |
| From continuing and discontinued operations | | | |
| Basic | | **27.30** | 18.96 |
| Diluted | | **27.29** | 18.64 |
| From continuing operations | | | |
| Basic | | **27.30** | 11.80 |
| Diluted | | **27.29** | 11.60 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30 June 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year | **694,971** | 475,291 |
| Other comprehensive income (expenses) | | |
| Exchange differences arising from translation of foreign operations | **42,999** | 81,665 |
| Gain on revaluation of buildings | **13,577** | 10,158 |
| Share of other comprehensive income of associates | **11,558** | 9,547 |
| Deferred tax arising from revaluation on buildings | **(2,828)** | (2,170) |
| Release of reserves upon partial and deemed partial disposal of interest in associates | **(8,764)** | – |
| Other comprehensive income for the year, net of tax | **56,542** | 99,200 |
| Total comprehensive income for the year | **751,513** | 574,491 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **711,772** | 531,288 |
| Non-controlling interests | **39,741** | 43,203 |
| | **751,513** | 574,491 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **322,281** | 300,010 |
| Prepaid lease payments | 20 | **29,707** | 29,992 |
| Intangible assets | 21 | **192,711** | 225,008 |
| Deferred expenditure | 22 | **97,051** | 59,426 |
| Available-for-sale investments | 23 | **270,451** | – |
| Goodwill | 24 | **110,273** | 110,273 |
| Interests in associates | 25 | **179,059** | 314,508 |
| Interest in a jointly controlled entity | 26 | **–** | – |
| Deposits | 27 | **436,265** | 197,205 |
| Deferred tax assets | 42 | **4,816** | 235 |
| | | **1,642,614** | 1,236,657 |
| **Current assets** | | | |
| Inventories | 28 | **42,543** | 28,169 |
| Trade and bills receivables | 29 | **442,723** | 567,730 |
| Other receivables, deposits and prepayments | 30 | **174,552** | 363,629 |
| Tax recoverable | | **6,634** | 6,326 |
| Bank balances and cash | 31 | **2,095,315** | 1,456,597 |
| | | **2,761,767** | 2,422,451 |
| **Current liabilities** | | | |
| Trade payables | 32 | **41,639** | 32,249 |
| Other payables and accrued expenses | 33 | **104,463** | 129,096 |
| Obligations under finance leases | 34 | **83** | 201 |
| Bank borrowings | 35 | **31,650** | 32,347 |
| Tax payables | | **54,768** | 49,314 |
| | | **232,603** | 243,207 |
| **Net current assets** | | **2,529,164** | 2,179,244 |
| **Total assets less current liabilities** | | **4,171,778** | 3,415,901 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

*As at 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 40 | **241,033** | 197,433 |
| Reserves | 41(a) | **3,665,434** | 2,985,185 |
| Equity attributable to owners of the Company | | **3,906,467** | 3,182,618 |
| Non-controlling interests | | **183,203** | 143,462 |
| **Total equity** | | **4,089,670** | 3,326,080 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 34 | **120** | 674 |
| Deferred tax liabilities | 42 | **59,992** | 62,693 |
| Deferred income | 44 | **21,996** | 26,454 |
| | | **82,108** | 89,821 |
| | | **4,171,778** | 3,415,901 |

The consolidated financial statements on pages 43 to 133 were approved and authorised for issue by the board of directors on 28 September 2012 and are signed on its behalf by:

**Zhang Peter Y.**
*Director*

**Deng Jie**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 30 June 2012*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Share premium** *HK$'000* | **Asset revaluation reserve** *HK$'000* | **Statutory reserve** *HK$'000* | **Exchange reserve** *HK$'000* | **Share option reserve** *HK$'000* | **Other reserve** *HK$'000* | **Retained profits** *HK$'000* | **Proposed final dividend** *HK$'000* | **Total** *HK$'000* | **Share award reserve of a subsidiary** *HK$'000* | **Non-controlling interests** *HK$'000* | **Total equity** *HK$'000* |
| At 1 July 2010 | 160,234 | 1,103,626 | 19,009 | 104,256 | 256,300 | 22,306 | 35,006 | 934,072 | 48,070 | 2,682,879 | 11,269 | 388,498 | 3,082,646 |
| Profit for the year | – | – | – | – | – | – | – | 441,838 | – | 441,838 | – | 33,453 | 475,291 |
| Other comprehensive income for the year: | | | | | | | | | | | | | |
| Exchange difference arising from translation of foreign operations | – | – | – | – | 72,728 | – | – | – | – | 72,728 | – | 8,937 | 81,665 |
| Gain on revaluation of buildings | – | – | 9,036 | – | – | – | – | – | – | 9,036 | – | 1,122 | 10,158 |
| Share of other comprehensive income of associates | – | – | – | – | 4,238 | 5,309 | – | – | – | 9,547 | – | – | 9,547 |
| Deferred tax arising from revaluation on buildings | – | – | (1,861) | – | – | – | – | – | – | (1,861) | – | (309) | (2,170) |
| Total other comprehensive income | – | – | 7,175 | – | 76,966 | 5,309 | – | – | – | 89,450 | – | 9,750 | 99,200 |
| Total comprehensive income for the year | – | – | 7,175 | – | 76,966 | 5,309 | – | 441,838 | – | 531,288 | – | 43,203 | 574,491 |
| Bonus shares issued *(Note 40(b))* | 32,047 | (32,047) | – | – | – | – | – | – | – | – | – | – | – |
| Issue of shares upon exercise of share options *(Note 40(c))* | 5,152 | 50,552 | – | – | – | (13,628) | – | – | – | 42,076 | – | – | 42,076 |
| Write back of share award expense | – | – | – | – | – | – | – | – | – | – | (7,921) | – | (7,921) |
| Deemed disposal of subsidiaries *(Note 47)* | – | – | – | (15,315) | (9,387) | – | (26,100) | 44,763 | – | (6,039) | (3,348) | (260,910) | (270,297) |
| Acquisition of additional interest in a subsidiary *(Note 38)* | – | – | – | – | – | – | (17,316) | – | – | (17,316) | – | (39,801) | (57,117) |
| Acquisition of assets and liabilities through acquisition of a subsidiary *(Note 45)* | – | – | – | – | – | – | – | – | – | – | – | 1,202 | 1,202 |
| Disposal of a subsidiary *(Note 46)* | – | – | – | – | (2,200) | – | – | – | – | (2,200) | – | – | (2,200) |
| Transfer to statutory reserve fund *(Note 41(a))* | – | – | – | 11,840 | – | – | – | (11,840) | – | – | – | – | – |
| Contribution from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 11,270 | 11,270 |
| Final dividend paid | – | – | – | – | – | – | – | – | (48,070) | (48,070) | – | – | (48,070) |
| Proposed final dividend | – | – | – | – | – | – | – | (67,127) | 67,127 | – | – | – | – |
| At 30 June 2011 | 197,433 | 1,122,131 | 26,184 | 100,781 | 321,679 | 13,987 | (8,410) | 1,341,706 | 67,127 | 3,182,618 | – | 143,462 | 3,326,080 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

*For the year ended 30 June 2012*

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Share premium** *HK$'000* | **Asset revaluation reserve** *HK$'000* | **Statutory reserve** *HK$'000* | **Exchange reserve** *HK$'000* | **Share option reserve** *HK$'000* | **Other reserve** *HK$'000* | **Retained profits** *HK$'000* | **Proposed final dividend** *HK$'000* | **Total** *HK$'000* | **Non-controlling interests** *HK$'000* | **Total equity** *HK$'000* |
| At 1 July 2011 | 197,433 | 1,122,131 | 26,184 | 100,781 | 321,679 | 13,987 | (8,410) | 1,341,706 | 67,127 | 3,182,618 | 143,462 | 3,326,080 |
| Profit for the year | – | – | – | – | – | – | – | 657,228 | – | 657,228 | 37,743 | 694,971 |
| Other comprehensive income for the year | | | | | | | | | | | | |
| Exchange difference arising from translation of foreign operations | – | – | – | – | 41,370 | – | – | – | – | 41,370 | 1,629 | 42,999 |
| Gain on revaluation of buildings | – | – | 13,129 | – | – | – | – | – | – | 13,129 | 448 | 13,577 |
| Share of other comprehensive income of associates | – | – | – | – | 4,526 | 7,032 | – | – | – | 11,558 | – | 11,558 |
| Deferred tax arising from revaluation on buildings | – | – | (2,749) | – | – | – | – | – | – | (2,749) | (79) | (2,828) |
| Release of reserves upon partial and deemed partial disposal of interest in associates | – | – | – | – | (8,764) | (12,341) | – | 12,341 | – | (8,764) | – | (8,764) |
| Total other comprehensive income | – | – | 10,380 | – | 37,132 | (5,309) | – | 12,341 | – | 54,544 | 1,998 | 56,542 |
| Total comprehensive income for the year | – | – | 10,380 | – | 37,132 | (5,309) | – | 669,569 | – | 711,772 | 39,741 | 751,513 |
| Bonus shares issued *(Note 40(d))* | 40,172 | (40,172) | – | – | – | – | – | – | – | – | – | – |
| Issue of shares upon exercise of share options *(Note 40(e))* | 3,428 | 33,246 | – | – | – | (8,678) | – | – | – | 27,996 | – | 27,996 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | 52,374 | – | – | – | 52,374 | – | 52,374 |
| Dividends approved in respect of the previous year | – | – | – | – | – | – | – | (1,166) | (67,127) | (68,293) | – | (68,293) |
| Proposed final dividend *(Note 17)* | – | (202,468) | – | – | – | – | – | – | 202,468 | – | – | – |
| At 30 June 2012 | 241,033 | 912,737 | 36,564 | 100,781 | 358,811 | 52,374 | (8,410) | 2,010,109 | 202,468 | 3,906,467 | 183,203 | 4,089,670 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit before taxation from continuing operations | | **774,249** | 355,825 |
| Profit before taxation from discontinued operations | | **–** | 201,767 |
| Profit before taxation | | **774,249** | 557,592 |
| Amortisation of intangible assets | | **33,823** | 36,498 |
| Amortisation of prepaid lease payments | | **768** | 1,441 |
| Depreciation of property, plant and equipment | | **19,129** | 18,135 |
| Fair value gain on derivative financial instruments | | **–** | (10,634) |
| Finance costs | | **2,958** | 2,475 |
| Government grant | | **(37)** | – |
| Gain on deemed disposal of subsidiaries | *47* | **–** | (152,077) |
| Share of profit of associates | | **(27,707)** | (30,072) |
| Gain on disposal of a subsidiary | *46* | **–** | (9,975) |
| Gain on partial disposal and deemed partial disposal of interest in associates | *25* | **(257,053)** | (14,489) |
| Gain on deemed disposal of interests in associates | *25* | **(125,335)** | – |
| Impairment loss recognised on intangible assets | | **–** | 58,702 |
| Impairment loss recognised on trade and bills receivables | | **3,633** | 2,490 |
| Impairment loss recognised on other receivables | | **210** | 1,253 |
| Bank interest income | | **(8,575)** | (5,826) |
| Amortisation of deferred income | | **(4,898)** | (1,566) |
| Loss on disposal of property, plant and equipment | | **–** | 1,090 |
| Write back of share award expenses | | **–** | (7,921) |
| Shared-based payments expenses | | **52,374** | – |
| Operating cash flow before movements in working capital | | **463,539** | 447,116 |
| Decrease in non-current deposits and prepayments | | **–** | 5,364 |
| (Increase) decrease in inventories | | **(14,375)** | 2,524 |
| Decrease (increase) in trade and bills receivables | | **121,308** | (137,299) |
| Decrease in other receivables, deposits and prepayments | | **129,906** | 48,500 |
| Increase (decrease) in trade payables | | **8,886** | (2,401) |
| (Decrease) increase in other payables and accrued expenses | | **(26,867)** | 72,016 |
| Cash generated from operations | | **682,397** | 435,820 |
| Income tax paid | | **(85,795)** | (94,569) |
| NET CASH FROM OPERATING ACTIVITIES | | **596,602** | 341,251 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

*For the year ended 30 June 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Proceeds from partial disposal of an associate, net of expenses | | **449,462** | – |
| Proceeds from disposal of prepaid lease payment | | **79,836** | 48,099 |
| Deposit paid for acquisition of property, plant and equipment | | **(2,460)** | (197,205) |
| Deposit paid for acquisition of land | | **(244,400)** | – |
| Addition on the deferred expenditure | | **(37,625)** | – |
| Purchase of property, plant and equipment | | **(11,779)** | (43,903) |
| Net cash outflow from acquisition of assets through acquisition of a subsidiary | | **–** | (4,209) |
| Capital injection to an associate | *25* | **(11,976)** | – |
| Net cash inflow from disposal of a subsidiary | *46* | **–** | 35,480 |
| Dividend received from an associate | | **7,513** | – |
| Interest received | | **8,575** | 5,826 |
| Proceeds from disposal of property, plant and equipment | | **–** | 5 |
| Advance to a third party | *30* | **(18,330)** | – |
| Advance to an associate | | **(167,659)** | – |
| NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES | | **51,157** | (155,907) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | **(68,293)** | (48,070) |
| Repayment of bank borrowings | | **(32,946)** | (56,870) |
| Repayment of obligation under a finance lease | | **(672)** | (160) |
| New bank borrowings raised | | **31,721** | 31,582 |
| Proceeds from issue of shares upon exercises of share options | | **27,996** | 42,076 |
| Contribution from non-controlling interests | | **–** | 11,270 |
| Government grant received | | **37** | – |
| Interest paid | | **(2,897)** | (2,419) |
| Finance lease charges paid | | **(61)** | (56) |
| Net cash outflow from partial disposal and deemed partial disposal of subsidiaries | | **–** | (184,968) |
| Net cash outflow from acquisition of additional interest in a subsidiary | | **–** | (29,893) |
| NET CASH USED IN FINANCING ACTIVITIES | | **(45,115)** | (237,508) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | **602,644** | (52,164) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | **1,456,597** | 1,456,011 |
| Effect of foreign exchange rate changes | | **36,074** | 52,750 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented bank balances and cash | | **2,095,315** | 1,456,597 |

## 1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). For the period up to September 2010, the management of the Company had considered HK$ as the functional currency of the Company. In September 2010, the Company completed the spin-off of a non-wholly owned subsidiary, Magic Holdings Group Limited ("Magic Holdings") and its subsidiaries which operated in the primary economic environment using HK$. As a result of such spin-off, the directors of the Company are of the view that the functional currency of the Company has been changed from HK$ to Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

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

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets |
| HKAS 24 (Revised) | Related Party Disclosures |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement |

Except as explained below, the adoption of the above new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current or prior accounting periods and/or disclosures set out in these consolidated financial statements.

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

**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 consolidated 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.

**Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets**

To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

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

| | |
|---|---|
| HKFRS (Amendments) | Annual Improvements 2009-2011 Cycle[3] |
| HKFRS 1 (Amendments) | Government Loans[3] |
| HKFRS 7 (Amendments) | Disclosures – Offsetting Financial Assets and Financial Liabilities[3] |
| HKFRS 9 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures and Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[3] |
| HKFRS 11 | Joint Arrangements[3] |
| HKFRS 12 | Disclosure of Interests in Other Entities[3] |
| HKFRS 13 | Fair Value Measurement[3] |
| HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance[3] |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[2] |
| HKAS 12 (Amendments) | Deferred Tax – Recovery of Underlying Assets[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[3] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[3] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[3] |
| HKAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities[4] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[3] |

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

[1] *Effective for annual periods beginning on or after 1 January 2012.*
[2] *Effective for annual periods beginning on or after 1 July 2012.*
[3] *Effective for annual periods beginning on or after 1 January 2013.*
[4] *Effective for annual periods beginning on or after 1 January 2014.*
[5] *Effective for annual periods beginning on or after 1 January 2015.*

**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.

To date, the Group has not entered into transactions involving offsetting of financial assets and financial liabilities. However, if the Group enters into any types of offsetting of financial assets and financial liabilities in the future, disclosures regarding the offsetting may be affected.

## 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 an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company 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. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

**New 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. 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 of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of these five standards will have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 11 will result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using proportionate consolidation. Under HKRFS 11, those jointly controlled entities will be classified as a joint operation or joint venture, depending on the rights and obligations of the policies to the joint arrangement. However, the Directors have not yet performed a detailed analysis of the application of these standards and hence have yet quantified the extent of the impact.

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

### 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 of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 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.

Other than disclosed above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain buildings and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for 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 income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

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

*Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*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 amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation** (continued)

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

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 relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

**Goodwill**

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For the 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. 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 is included in the determination of the amount of profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments in subsidiaries**

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

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

**Interests in associates**

An associate is an entity over which the 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 carried 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 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 acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Interests in associates** (continued)

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at the date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

**Jointly controlled entities**

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

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

Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Jointly controlled entities** (continued)

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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, rebates and 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 good 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.

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

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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment**

Property, plant and equipment other than leasehold buildings and construction in progress, are stated in consolidated financial statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

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

Construction in progress includes property, plant and equipment in the course of construction for production supply or for its own use purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leasehold land and buildings**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, 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.

**Leasing**

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

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

*Intangible assets acquired in a business combination*

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

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

*Intangible assets acquired separately*

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

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

Operating right

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

Technical knowhow

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets** (continued)

*Intangible assets acquired separately (continued)*

Research and development expenditure

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

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment loss (is any), on the same basis as intangible assets acquired separately.

**Deferred expenditure**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**

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

**Foreign currencies**

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Borrowings costs**

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

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

**Government grants**

Government grants are 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. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Taxation**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation** (continued)

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents**

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

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

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

Effective interest method

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

*Financial assets (continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment loss on financial assets

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

*Financial assets (continued)*

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

Financial assets carried at amortised cost, the amount of impaired 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 assets' the original effective interest rate.

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

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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

## 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 substance of the contractual arrangements entered into 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 premium 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 payables, other payables and accrued expenses, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

### Retirement benefit costs

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

### Equity settled share-based payment transactions

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Equity settled share-based payment transactions** (continued)

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

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

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

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 flow 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 immediately in profit or loss.

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

**Critical judgements in applying the entity's accounting policies**

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

*Withholding tax arising from the distribution of dividends*

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends in the future. The management exercise full control over the dividend policy of the Group. The directors considered as the Group's PRC subsidiaries will distribute dividends limited to the profits earned of the respective financial year, there is no deferred tax for withholding taxes on undistributed profits should be recognised.

**Key sources of estimation uncertainty**

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

*Impairment of trade and bills receivables and other receivables*

Impairment of trade and bills receivables and other receivables is made based on assessment of the recoverability of trade and other receivables. The identification of impairment requires management judgment and estimation. Where the actual outcome or expectation in future is different from the original estimation, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed. As at 30 June 2012, the carrying amount of trade and bills receivables and other receivable is HK$442,723,000 (net of allowance for doubtful debts of HK$8,248,000) and HK$77,298,000 (net of impairment loss of approximately HK$2,465,000) respectively (30 June 2011: carrying amount of trade and bills receivables of HK$567,730,000, net of allowance for doubtful debts of approximately HK$4,549,000 and carrying amount of other receivables of HK$263,395,000, net of impairment loss of approximately HK$2,221,000, respectively). During the year, impairment loss on trade and bills receivables and other receivable was recognised in the consolidated income statement amounting to approximately HK$3,633,000 and HK$210,000 (2011: approximately HK$2,490,000 and HK$1,253,000) respectively.

*Estimation of fair value of buildings outside Hong Kong*

As described in Note 19, the buildings located outside Hong Kong were revalued at the end of the reporting period by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from gross replacement cost which is the estimated cost of erecting the building or a modern substitute building having the same area as the existing building at current prices at the relevant date and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. As at 30 June 2012, the carrying amount of buildings outside of Hong Kong was approximately HK$222,563,000 (2011: HK$192,073,000).

*Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2012, the carrying amount of goodwill was approximately HK$110,273,000 (2011: HK$110,273,000). Details of impairment testing on goodwill are set out in Note 24.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

*Estimated impairment of intangible assets and deferred expenditure*

The Group performs annual assessments on whether there have been impairment of intangible assets and deferred expenditure. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the businesses, pre-tax discount rates and other assumptions underlying the value-in-use calculations. For any instance where this evaluation process indicates impairment, the relevant intangible asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement. As at 30 June 2012, the carrying amount of intangible assets and deferred expenditure were approximately HK$192,711,000 (2011:HK$225,008,000) and HK$97,051,000 (2011: HK$59,426,000) respectively.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

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

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 30 June 2012 and 2011.

## 5. CAPITAL RISK MANAGEMENT (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total debt | **31,853** | 33,222 |
| Equity attributable to the owners of the Company | **3,906,467** | 3,182,618 |
| Gearing ratio | **0.8%** | 1.0% |

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash) | | |
| Trade and bills receivables | **442,723** | 567,730 |
| Other receivables and deposits | **100,268** | 289,936 |
| Bank balances and cash | **2,095,315** | 1,456,597 |
| | **2,638,306** | 2,314,263 |
| Available-for-sale investments at fair value | **270,451** | – |
| **Financial liabilities** | | |
| At amortised cost | | |
| Trade payables | **41,639** | 32,249 |
| Other payables and accrued expenses | **98,694** | 123,468 |
| Bank borrowings | **31,650** | 32,347 |
| Obligations under a finance leases | **203** | 875 |
| | **172,186** | 188,939 |

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investment, trade and bills receivables, other receivables and deposits, bank balances and cash, trade payables, other payables and accrued expenses, bank borrowings and obligations under finance leases. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk, liquidity risk and equity price risk. 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.

### Market risk

*Foreign currency risk*

The majority of the subsidiaries in the Group are operating in the PRC which did not expose to any foreign currency risk. Certain bank balances, other receivables and other payables are denominated in currencies other than the functional currency of respective entities.

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

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

| | **Increase/ (decrease) in exchange rate** | **Increase/ (decrease) in profit after tax and retained earnings** |
|---|---|---|
| | *%* | *HK$'000* |
| **2012** | | |
| If Hong Kong dollar weakens against RMB | 10 | 4,395 |
| If Hong Kong dollar strengthens against RMB | (10) | (4,395) |
| 2011 | | |
| If Hong Kong dollar weakens against RMB | 10 | 3,183 |
| If Hong Kong dollar strengthens against RMB | (10) | (3,183) |

### 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Market risk** (continued)

*Interest rate risk*

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

The interest rates of the bank balances, obligations under a finance leases and interest-bearing bank borrowings of the Group are disclosed in Notes 31, 34 and 35 respectively. The Group currently does not have an interest rate hedging policy. However, management monitors the Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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

| | **Increase in interest rate** *(basis point)* | **Increase in profit after tax and retained earnings** *HK$'000* |
|---|---|---|
| **2012** | 100 | 15,477 |
| 2011 | 100 | 10,682 |

**Credit risk**

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

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

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Credit risk** (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. As at 30 June 2012, the Group has certain significant concentration risk as 14% (2011: 1%) and 25% (2011: 3%) of trade and bills receivables were due from the Group's largest customer and the five largest customers respectively.

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

As at 30 June 2012, the Group has significant concentration of credit risk as 44% of deposit and prepayment arising from deposits paid for the acquisition of property, plant and equipment (2011: 95% of deposit and prepayment arising from deposit paid for the acquisition of additional interest in a subsidiary) due from one independent third party.

As at 30 June 2012, the Group has certain significant concentration risk as 41% (2011: 42%) of other receivables were due from one independent third party.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2011: 100%) of the total trade and bills receivables as at 30 June 2012.

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

**Liquidity risk**

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

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk** (continued)

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

| | Within 1 year or repayable on demand | 1 – 5 years | More than 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 June 2012** | | | | | |
| Trade payables | **41,639** | **–** | **–** | **41,639** | **41,639** |
| Other payables and accrued expenses | **98,694** | **–** | **–** | **98,694** | **98,694** |
| Bank borrowings | **33,716** | **–** | **–** | **33,716** | **31,650** |
| Obligations under finance leases | **95** | **126** | **–** | **221** | **203** |
| | **174,144** | **126** | **–** | **174,270** | **172,186** |
| **As at 30 June 2011** | | | | | |
| Trade payables | 32,249 | – | – | 32,249 | 32,249 |
| Other payables and accrued expenses | 123,468 | – | – | 123,468 | 123,468 |
| Bank borrowings | 34,050 | – | – | 34,050 | 32,347 |
| Obligations under finance leases | 257 | 707 | 39 | 1,003 | 875 |
| | 190,024 | 707 | 39 | 190,770 | 188,939 |

**Equity price risk**

The Group is exposed to equity price risk through its investments in listed equity securities *(Note 23)*.

At 30 June 2012, it is estimated that an increase/decrease of 1% in equity prices, with all other variables held constant, would have increased/decreased the Group's investment revaluation reserve by approximately HK$2,705,000.

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Fair value**

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 bid prices and ask prices respectively.

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

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

**Fair value measurements recognised in the consolidated statement of financial position**

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

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

| | 30 June 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Available-for-sale investments | | | | |
| – Listed equity securities | **270,451** | **–** | **–** | **270,451** |

There was no available-for-sale investments on other financial assets measured of fair value as at 30 June 2011. There were no transfers between Level 1 and 2 in the current year.

## 8. TURNOVER

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | **1,724,465** | 1,157,263 |
| *Less:* rebates | **(412,338)** | – |
| | **1,312,127** | 1,157,263 |

## 9. SEGMENT INFORMATION

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

**Segment revenues, results, assets and liabilities**

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

**Geographical information**

The Group's markets and production are carried out in the PRC and the Group's revenue from external customers and non-current assets are situated in the PRC. As a result, no geographical segment information is presented.

**Information about major customers**

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **292,839** | 212,587 |

## 10. OTHER INCOME

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations:** | | |
| Bank interest income | **8,575** | 5,826 |
| Recognition of deferred income on distribution rights *(Note 44)* | **4,898** | 1,566 |
| Government grant *(Note)* | **37** | – |
| | **13,510** | 7,392 |

*Note:* The government grant recognised during the year in respect of certain research projects of the Group and the Group fulfilled the relevant granting criteria which made the Group to recognise the government grants as other income immediately for the year.

## 11. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations:** | | |
| Interest expenses on: | | |
| – bank borrowings repayable within five years | **2,897** | 2,419 |
| – finance lease charges | **61** | 56 |
| | **2,958** | 2,475 |

No borrowing costs were capitalised for the year ended 30 June 2012 and 2011.

## 12. TAXATION

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations:** | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current year | **90,371** | 77,392 |
| – Underprovision in prior years | **131** | 317 |
| | **90,502** | 77,709 |
| Deferred tax *(Note 42)* | **(11,224)** | (4,231) |
| | **79,278** | 73,478 |

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

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

Pursuant to the income tax rules and regulations of the PRC, Guiyang De Chang Xiang Pharmaceutical Company Limited ("DCX"), a subsidiary was recognised as high technology enterprise on 25 November 2008 and therefore is entitled to a preferential tax rate of 15% for three years, with effective from 25 November 2008. On 28 September 2011, DCX successfully renew the position as high technology enterprise and therefore is entitled to a preferential tax rate of 15% for another three years.

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

## 12. TAXATION (continued)

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

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation from continuing operations | **774,249** | 355,825 |
| Tax at the domestic tax rate of 25% (2011: 25%) | **193,562** | 88,956 |
| Tax effect of share of profit of associates | **(7,716)** | (7,518) |
| Tax effect of expenses not deductible for tax purpose | **10,566** | 20,220 |
| Tax effect of income not taxable for tax purpose | **(62,574)** | (7,499) |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | **(26,450)** | 1,264 |
| Tax effect on preferential tax rate | **(28,241)** | (22,326) |
| Effect of changes in tax rate | **–** | 64 |
| Underprovision in prior years | **131** | 317 |
| Tax charge for the year (relating to continuing operations) | **79,278** | 73,478 |

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

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

## 13. DISCONTINUED OPERATIONS

During the year ended 30 June 2011, the Group completed the spin-off of its operations in facial mask and skincare products through separate listing of its non-wholly owned subsidiary Magic Holdings and its subsidiaries (collectively referred to as the "Magic Group") on the Stock Exchange on 24 September 2010. Details of which were set out in the prospectus of Magic Holdings dated on 10 September 2010. Upon the listing of the Magic Group, the Group's interests in Magic Holdings was diluted from 36.4% to 25.94% and pursuant to the cancellation of the voting-in-concert undertakings, the investments in Magic Group were recognised as investments in associates as at 30 June 2011.

The profit from the discontinued operation is analysed as follows:

| | Period from 1 July 2010 to 24 September 2010 *HK$'000* |
|---|---|
| Profit of facial mask and skincare products operations for the period | 40,867 |
| Gain on deemed disposal of subsidiaries *(Note 47)* | 152,077 |
| | 192,944 |

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

| | Period from 1 July 2010 to 24 September 2010 *HK$'000* |
|---|---|
| Turnover | 187,125 |
| Cost of sales | (38,608) |
| Gross profit | 148,517 |
| Other income | 22 |
| Selling and distribution expenses | (102,254) |
| Administrative expenses | (9,616) |
| Write back of share award expense | 7,921 |
| Fair value gain on derivative financial instruments | 5,100 |
| Profit before taxation | 49,690 |
| Taxation | (8,823) |
| Profit for the period from discontinued operations | 40,867 |

## 13. DISCONTINUED OPERATIONS (continued)

| | Period from 1 July 2010 to 24 September 2010 *HK$'000* |
|---|---|
| Profit for the period attributable to: | |
| Owners of the Magic Holdings | 41,086 |
| Non-controlling interests | (219) |
| | 40,867 |
| Net cash from operating activities | 39,141 |
| Net cash from investing activities | 117,081 |
| Net cash used in financing activities | (20,729) |
| Net cash inflow | 135,493 |

Profit for the period from discontinued operations including the following:

| | Period from 1 July 2010 to 24 September 2010 *HK$'000* |
|---|---|
| Auditors' remuneration | 350 |
| Cost of inventories sold | 38,608 |
| Staff costs (including directors' emoluments) | 16,230 |
| Write back of share award expense *(Note)* | (7,921) |
| Minimum lease payment under operating leases in respect of land and buildings | 444 |
| Net foreign exchange gains | (10) |
| Bank interest income | (12) |
| Fair value gain on derivative financial instruments | (5,100) |

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

## 14. PROFIT FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| **Continuing operations:** | | |
| Amortisation of intangible assets | **33,823** | 36,498 |
| Amortisation of prepaid lease payments | **768** | 1,441 |
| Auditors' remuneration | **2,000** | 2,000 |
| Cost of inventories sold* | **456,269** | 316,936 |
| Staff costs (including directors' emoluments disclosed in Note 15) | | |
| – salaries, wage, allowance and benefit in kind | **37,912** | 29,030 |
| – share-based payments | **52,374** | – |
| – retirement scheme contribution | **4,658** | 3,597 |
| | **94,944** | 32,627 |
| Depreciation of property, plant and equipment | **19,129** | 18,135 |
| Impairment loss recognised on trade and bills receivables (included in administrative expenses) | **3,633** | 2,490 |
| Impairment loss recognised on other receivables (included in administrative expenses) | **210** | 1,253 |
| Loss on disposal of property, plant and equipment | **–** | 1,090 |
| Minimum lease payment under operating leases in respect of land and buildings | **2,662** | 2,135 |
| Research and development costs recognised as an expense | **3,324** | 1,521 |
| Net foreign exchange losses | **418** | 2,188 |

* *Cost of inventories includes approximately HK$36,623,000 (2011: HK$21,951,000) relating to staff costs and depreciation, of which amounts are also included in the respective total amounts disclosed separately above.*

## 15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2011: nine) directors were as follows:

**For the year ended 30 June 2012**

| | Fees | Salaries, allowances and other benefits | Discretionary bonus | Retirement benefit schemes contribution | Share-based payments | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors: | | | | | | |
| Mr. Zhang Peter Y. | – | 165 | 1,173 | 7 | 1,047 | 2,392 |
| Mr. Deng Jie | – | 138 | 1,080 | 7 | 1,047 | 2,272 |
| Mr. Long Xian Feng | – | 110 | 987 | 7 | 1,047 | 2,151 |
| Mr. Zhou Chong Ke | – | 110 | 400 | 7 | 1,047 | 1,564 |
| Non-executive directors: | | | | | | |
| Mr. Wee Ee Lim | 200 | – | – | – | 1,047 | 1,247 |
| Mr. Tarn Sien Hao | 200 | – | – | – | 1,047 | 1,247 |
| Independent non-executive directors: | | | | | | |
| Professor Kung Hsiang Fu | 200 | – | – | – | 1,047 | 1,247 |
| Professor Tso Wung Wai | 200 | – | – | – | 1,047 | 1,247 |
| Mr. Hon Yiu Ming, Matthew | 200 | – | – | – | 1,047 | 1,247 |
| | 1,000 | 523 | 3,640 | 28 | 9,423 | 14,614 |

## 15. DIRECTORS' EMOLUMENTS (continued)

**For the year ended 30 June 2011**

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

Discretionary bonus for the two years ended 30 June 2012 and 2011 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

No directors waived or agreed to waive any emoluments paid by the Company during the two years ended 30 June 2012 and 2011.

During the years ended 30 June 2012 and 2011, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

## 16. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: four) were directors of the Company whose emoluments are included in the disclosures in Note 15. The emolument of the remaining one (2011: one) highest paid individual was as follows:

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowance, other benefits and bonus | **661** | 598 |
| Retirement benefit schemes contribution | **12** | 12 |
| Share-based payments | **1,047** | – |
| | **1,720** | 610 |

*Note:* The emolument of the above highest paid individual fell within the HK$1,500,001 to HK$2,000,000 (2011: nil to HK$1,000,000) band.

During the years ended 30 June 2012 and 2011, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 17. DIVIDENDS

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend proposed: | | |
| HK3.4 cents (2011: HK3.4 cents) per share | **81,951** | 68,293 |
| Special dividend proposed: | | |
| HK5 cents (2011: Nil) per share | **120,517** | – |
| | **202,468** | 68,293 |

**Final dividend and special dividend for 2012**

The final dividend of HK3.4 cents and special dividend of HK5 cents per share has been proposed by the directors of the Company.

In addition, the directors of the Company further proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by the shareholders whose name appear on the register on 27 December 2012.

The final and special dividend for 2012 and bonus issue are subject to approval by the Company's shareholders in the forthcoming Annual General Meeting.

## 17. DIVIDENDS (continued)

**Final dividend for 2011**

On 30 September 2011, the Board resolved to proposed a final cash dividend of HK3.4 cents per share and bonus issue on the basis of one bonus share for every five existing shares held by shareholders whose name appear on the register on 28 December 2011 for the year ended 30 June 2011. The final dividend amounting to HK$68,293,000 and bonus issue had been approved by the Company's shareholders in the annual general meeting on 16 December 2011.

## 18. EARNINGS PER SHARE

**From continuing and discontinued operations**

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings | | |
| Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share | **657,228** | 441,838 |

| | **2012** | 2011 |
|---|---|---|
| Number of shares | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,407,241** | 2,330,446 |
| Effect of dilutive ordinary shares in respect of share options | **804** | 39,716 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,408,045** | 2,370,162 |

The number of ordinary shares for both years for the purpose of basic and diluted earnings per share has been adjusted for the bonus issue approved pursuant to the annual general meeting held on 16 December 2011.

## 18. EARNINGS PER SHARE (continued)

**From continuing operations**

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

Earnings Figures are calculated as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings | | |
| Profit for the year attributable to the owners of the Company | **657,228** | 441,838 |
| *Less:* Profit for the year attributable to the owners of the Company from discontinued operations | **–** | (166,953) |
| Earnings for the purposes of basic and diluted earnings per share from continuing operations | **657,228** | 274,885 |

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

**From discontinued operations**

Basic earnings per share for the discontinued operations is HK7.16 cents per share for the year ended 30 June 2011 and diluted earnings per share for the discontinued operations is HK7.04 cents per share for the year ended 30 June 2011, based on the profit for the year from discontinued operations attributable to owners of the Company of HK$166,953,000 for the year ended 30 June 2011 and the denominators detailed above for both basic and diluted earnings per share.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures, equipment and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| AT COST OR VALUATION | | | | | | |
| At 1 July 2010 | 97,512 | 5,985 | 72,421 | 21,799 | 107,846 | 305,563 |
| Exchange realignment | 7,018 | 874 | 3,653 | 1,149 | 4,221 | 16,915 |
| Additions | – | – | 603 | 1,626 | 42,265 | 44,494 |
| Disposals | – | – | – | (1,974) | – | (1,974) |
| Transfer | 86,704 | – | – | – | (86,704) | – |
| Increase in revaluation | 839 | – | – | – | – | 839 |
| At 30 June 2011 | 192,073 | 6,859 | 76,677 | 22,600 | 67,628 | 365,837 |
| Exchange realignment | 3,046 | 303 | 1,269 | 335 | 1,115 | 6,068 |
| Additions | – | – | 2,197 | 1,563 | 19,243 | 23,003 |
| Transfer | 25,000 | – | – | – | (25,000) | – |
| Increase in revaluation | 2,444 | – | – | – | – | 2,444 |
| At 30 June 2012 | 222,563 | 7,162 | 80,143 | 24,498 | 62,986 | 397,352 |
| Comprising: | | | | | | |
| At cost | – | 7,162 | 80,143 | 24,498 | 62,986 | 174,789 |
| At valuation | 222,563 | – | – | – | – | 222,563 |
| | 222,563 | 7,162 | 80,143 | 24,498 | 62,986 | 397,352 |

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures, equipment and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| ACCUMULATED DEPRECIATION | | | | | | |
| At 1 July 2010 | – | 1,988 | 36,812 | 15,622 | – | 54,422 |
| Exchange realignment | – | 697 | 2,011 | 760 | – | 3,468 |
| Provided for the year | 9,319 | 250 | 6,688 | 1,878 | – | 18,135 |
| Eliminated on disposals | – | – | – | (879) | – | (879) |
| Eliminated on revaluation | (9,319) | – | – | – | – | (9,319) |
| At 30 June 2011 | – | 2,935 | 45,511 | 17,381 | – | 65,827 |
| Exchange realignment | – | 241 | 739 | 268 | – | 1,248 |
| Provided for the year | 11,133 | 269 | 6,363 | 1,364 | – | 19,129 |
| Eliminated on revaluation | (11,133) | – | – | – | – | (11,133) |
| At 30 June 2012 | – | 3,445 | 52,613 | 19,013 | – | 75,071 |
| CARRYING VALUES | | | | | | |
| At 30 June 2012 | 222,563 | 3,717 | 27,530 | 5,485 | 62,986 | 322,281 |
| At 30 June 2011 | 192,073 | 3,924 | 31,166 | 5,219 | 67,628 | 300,010 |

The Group's buildings are located in PRC and are held under medium-term leases.

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

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

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

The buildings situated outside Hong Kong for office and certain production premises were revalued by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of registered professional surveyors not connected with the Group. The buildings have been valued on depreciated replacement cost approach. The valuation conforms to International Valuation Standards. At 30 June 2012, the buildings were assessed at approximately HK$222,563,000 (2011: HK$192,073,000). In the current year, revaluation surplus of HK$13,577,000 (2011: HK$10,158,000) has been credited to the asset revaluation reserve.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been approximately HK$118,741,000 (2011: HK$129,874,000).

For the year ended 30 June 2012, motor vehicles included an amount of approximately HK$200,000 (2011: HK$893,000) in respect of assets held under a finance lease.

At 30 June 2012, certain of the Group's buildings with net carrying amounts of approximately HK$36,432,000 (2011: HK$34,872,000) were pledged to secure certain banking facilities granted to the Group *(Note 35)*.

## 20. PREPAID LEASE PAYMENTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 July | **30,740** | 30,710 |
| Exchange realignment | **501** | 1,471 |
| Amortised during the year | **(768)** | (1,441) |
| At 30 June | **30,473** | 30,740 |

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Analysed for reporting purposes as: | | |
| Current asset included in other receivables, deposits and prepayments *(Note 30)* | **766** | 748 |
| Non-current assets | **29,707** | 29,992 |
| | **30,473** | 30,740 |

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

At 30 June 2011, approximately HK$4,525,000 of the prepaid lease payments (2012: nil) was pledged for banking facilities granted to the Group *(Note 35)*.

## 21. INTANGIBLE ASSETS

| | Operating rights HK$'000 | Technical knowhow HK$'000 | Deferred development costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| AT COST | | | | |
| At 1 July 2010 | 22,926 | 368,450 | 6,964 | 398,340 |
| Exchange realignment | – | 20,237 | 341 | 20,578 |
| Additions *(Note)* | – | 24,049 | – | 24,049 |
| Acquired through acquisition of a subsidiary *(Note 45)* | 4,872 | – | – | 4,872 |
| Derecognition upon disposal of a subsidiary | (22,926) | – | – | (22,926) |
| At 30 June 2011 | 4,872 | 412,736 | 7,305 | 424,913 |
| Exchange realignment | 79 | 4,494 | 119 | 4,692 |
| At 30 June 2012 | 4,951 | 417,230 | 7,424 | 429,605 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | | | | |
| At 1 July 2010 | 5,731 | 90,370 | 6,964 | 103,065 |
| Exchange realignment | – | 7,030 | 341 | 7,371 |
| Provided for the year | 406 | 36,092 | – | 36,498 |
| Impairment | – | 58,702 | – | 58,702 |
| Derecognition upon disposal of a subsidiary | (5,731) | – | – | (5,731) |
| At 30 June 2011 | 406 | 192,194 | 7,305 | 199,905 |
| Exchange realignment | 4 | 3,043 | 119 | 3,166 |
| Provided for the year | 1,240 | 32,583 | – | 33,823 |
| At 30 June 2012 | 1,650 | 227,820 | 7,424 | 236,894 |
| CARRYING VALUES | | | | |
| At 30 June 2012 | 3,301 | 189,410 | – | 192,711 |
| At 30 June 2011 | 4,466 | 220,542 | – | 225,008 |

*Note:*

Pursuant to the purchase agreement of a technical knowhow to produce biochips and the related patent right, the Group is committed to pay RMB20,000,000 to the vendor if this technology is properly registered to the relevant government authority in the PRC. The registration was completed on 11 May 2012, thus the RMB20,000,000 (approximately HK$24,049,000) was recognised as intangible assets, and the amount was not paid as at the end of reporting period and included in other payable.

Operating rights, technical knowhow and deferred development costs at the end of the reporting period related to a variety of the Group's existing products, which the estimated remaining useful life was 3 to 6 years.

## 21. INTANGIBLE ASSETS (continued)

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

| | |
|---|---|
| Operating rights | 4 years |
| Technical knowhow | 10 years |
| Deferred development costs | 8 years |

During the year ended 30 June 2012 and 2011, due to the demand of biochips was less than expected, the directors of the Company conducted an impairment review of the Group's intangible asset. The independent valuation was performed by DTZ and the valuation is based on the relief from royalty method using cash flow projections based on the financial budgets approved by senior management covering a five-year period. The royalty rates used on the technical knowhow to produce biochips is at 10% (2011: 10%) of projected revenue and at a discount rate of 18% (2011: 18%).

Based on the above, the directors of the Company had determined that the technical knowhow to produce biochips were impaired and an impairment loss of approximately HK$58,702,000 was recognised for the year ended 30 June 2011. No impairment loss has been recognised on intangible assets for the year ended 30 June 2012.

## 22. DEFERRED EXPENDITURE

Balance represents the costs of acquiring technical knowhow in relation to the production of a State category one new medicine in the PRC. The Group will apply for the production permit of the medicine after the completion of the construction of the related manufacturing plant and the successful application of Good Manufacturing Practice certificate. During the year ended 30 June 2012, the Group incurred additional of approximately HK$37,625,000 development cost for the new medicine.

The Group had assessed the recoverable amount of the deferred expenditure with reference to an independent valuation performed by DTZ as at 30 June 2012. The valuation is based on the relief from royalty method using cash flow projections based on the financial budgets approved by senior management covering a five-year period. The royalty rates used at 15% of the projected revenue (2011: 15%) and at a discount rate of 18% (2011: 18%).

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

## 23. AVAILABLE-FOR-SALE INVESTMENT

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Equity securities listed in Hong Kong, at fair value based on quoted market bid price | **270,451** | – |

*Note:*

On 30 June 2012, upon the resignation of the nominees directors on the Magic Holdings, the directors of the Company were of the opinion that the Group would no longer possess significant influence over the financing and operating policy decision of Magic Holdings. The Group's remaining interests in Magic Holdings (representing approximately 9.98% of the issued share capital of Magic Holdings at the time of the disposal) with a carrying amount of approximately HK$270,451,000 was reclassified as available-for-sale investment.

## 24. GOODWILL

| | **Total** |
|---|---|
| | *HK$'000* |
| COST | |
| At 1 July 2010 | 112,450 |
| Release on disposal of a subsidiary *(Note 46)* | (2,177) |
| At 30 June 2011 and 2012 | 110,273 |
| ACCUMULATED IMPAIRMENT LOSS | |
| At 1 July 2010, 30 June 2011 and 30 June 2012 | – |
| CARRYING VALUES | |
| At 30 June 2012 | 110,273 |
| At 30 June 2011 | 110,273 |

## 24. GOODWILL (continued)

### Impairment testing on goodwill

For the purposes of impairment testing, goodwill with indefinite useful lives acquired in business combination has been allocated to three individual cash generating units ("CGUs") (i) Guizhou Hanfang Medicine Manufacture Co. Ltd. ("GHMM"); (ii) DCX; and (iii) Guilin Gu Jin Pharmaceutical Technology Co. Ltd. ("Guilin Gu Jin"). All of the CGUs are operating in the manufacturing, sales and trading of Chinese and Western pharmaceutical products. The carrying values of goodwill at the end of reporting period allocated to these units are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| GHMM | **1,603** | 1,603 |
| DCX | **16,038** | 16,038 |
| Guilin Gu Jin | **92,632** | 92,632 |
| | **110,273** | 110,273 |

The Group conducted impairment review on goodwill attributable to each of the respective CGUs concerned at end of the reporting period by reference to the estimated recoverable amounts. The recoverable amounts of the relevant CGUs have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period, followed by an extrapolation of expected cash flows at the average growth rates of 0% – 3% (2011: 0% – 3%). The growth rate did not exceed the long-term average growth rate for the business in which the cash generating unit operates. The discount rate applied to cash flow projections is 18% (2011: 18%).

The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash-generating units to exceed the aggregate recoverable amount. Since the recoverable amounts of the cash-generating units are higher than their carrying amounts, the directors consider that the carrying value of the goodwill at the end of both reporting period are not impaired.

## 25. INTERESTS IN ASSOCIATES

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Cost of investment in associates | | |
| Listed in Hong Kong | – | 274,889 |
| Unlisted | 11,429 | – |
| | 11,429 | 274,889 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | (29) | 39,619 |
| Amount due from an associate *(Note c)* | 167,659 | – |
| | 179,059 | 314,508 |
| Fair value of listed investments | – | 889,180 |

As at 30 June 2012 and 2011, the Group had interests in the following associates:

| Name | Place of incorporation and operations | Percentage of ownership interest attributable to the Group 2012 | 2011 | Principal activity |
|---|---|---|---|---|
| Magic Holdings *(Note (a))* | Cayman Islands | N/A | 25% | Investment holding |
| 貴州省北科泛特爾生物科技有限公司 ("北科泛特爾") *(Note (b))* | PRC | 46.76% | N/A | Developing stem cell medical engineering business |

*Note (a)*

On 19 January 2012, the Group sold a total of 150,284,000 shares of Magic Holdings at cash consideration of approximately HK$450,852,000. After the completion of the disposal of 150,284,000 shares of Magic Holdings, the Group's interests in Magic Holdings was decreased to approximately 9.998%. Since the Group hold 2 out of 9 seats of the board of directors in Magic Holdings, the directors of the Company were of the opinion that the Group still exercise significant influence over Magic Group.

During the year ended 30 June 2012, follow the exercise of the share options of Magic Holdings by the share options holder, the Group's interests in Magic Holdings further diluted from 9.998% to 9.928%.

A gain on partial disposal and deemed partial disposal of interests in associates approximately HK$257,053,000 was recognised in the consolidated income statement for the year ended 30 June 2012.

## 25. INTERESTS IN ASSOCIATES (continued)

On 18 June 2012, two nominees directors from the Company has tendered their resignation as executive directors of Magic Group with effect from 30 June 2012. Upon the resignation of the nominees directors from the Company, the Group ceased to have significant influence over Magic Holdings. Immediately after the resignation of the nominees directors, the Group's remaining interests in Magic Holdings measured at fair value of approximately HK$270,451,000 was reclassified as available-for-sale investments. A gain on deemed disposal of interests in associates amounted to approximately HK$125,335,000 was recognised in the consolidated income statement for the year ended 30 June 2012.

During the year ended 30 June 2012, dividends of approximately HK$7,513,000 were received (2011: nil).

*Note (b)*

On 20 January 2012, the Group formed an associate company, 北科泛特爾 with a third party investor with initial capital contribution of approximately HK$11,976,000 settled by cash.

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **192,039** | 1,366,975 |
| Total liabilities | **(167,659)** | (108,943) |
| Net assets | **24,380** | 1,258,032 |
| Group's share of net assets of associates | **11,400** | 314,508 |
| Revenue | **1,349,409** | 770,197 |
| Profit for the year | **200,066** | 120,287 |
| Other comprehensive income | **50,313** | 38,189 |
| Group's share of profits and other comprehensive income of associates for the year | **42,420** | 39,619 |

*Note (c)*

The amount due from an associate represents the advance for further capital injection of equity interest in an associate pursuant to the agreement signed on 20 January 2012.

The capital verification and relevant registration has not been completed as of date of these consolidated financial statements.

## 26. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of unlisted investment in a jointly controlled entity | **170** | 170 |
| Share of post-acquisition losses | **(170)** | (170) |
| | **–** | – |

As at 30 June 2012 and 2011, the Group had interest in a jointly-controlled entity as follows:

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

During the year, the Group did not share any of the losses of GHMR (2011: Nil) as, according to the joint venture agreement, the Group's share of losses of GHMR is limited to its capital contribution to GHMR, which was reached in prior years.

GHMR remained inactive during the year ended 30 June 2012 and 2011. The jointly controlled entity does not have any significant assets and liabilities as at 30 June 2012 and 2011, nor any significant results for the year ended 30 June 2012 and 2011.

## 27. DEPOSITS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposits paid in respect of: | | |
| Leasehold improvement | **–** | 10,821 |
| Acquisition of plant and equipment *(Note a)* | **191,865** | 186,384 |
| Prepaid lease payments *(Note b)* | **244,400** | – |
| | **436,265** | 197,205 |

## 27. DEPOSITS (continued)

*Notes:*

(a) Including in deposits paid in respect of acquisition of plant and equipment, represented the upfront deposit of RMB155,000,000 (equivalent to approximately HK$189,405,000 (2011: HK$186,384,000)) had been paid upon entering into the purchase agreement with Guizhou Shunzhi Trade Co., Ltd. ("Guizhou Shunzhi") on 9 May 2011, pursuant to the purchase agreement, Guizhou Shunzhi will be responsible for the sourcing of plant and equipment for production line of Human Placental Serum Albumin. Those plant and equipment were not yet received at 30 June 2012 and the amount is classified as deposit paid for acquisition of plant and equipment and included in the non-current assets.

(b) The Group paid for an upfront deposit of land lease payments of RMB200,000,000 (equivalent to approximately HK$244,400,000). The transfer of the title of the land is under registration process and the amount is classified as deposit paid for prepaid lease payments and included in the non-current assets.

## 28. INVENTORIES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **28,056** | 17,551 |
| Finished goods | **14,487** | 10,618 |
| | **42,543** | 28,169 |

## 29. TRADE AND BILLS RECEIVABLES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **447,551** | 567,361 |
| Bills receivables | **3,420** | 4,918 |
| *Less:* provision for impairment loss | **(8,248)** | (4,549) |
| | **442,723** | 567,730 |

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

## 29. TRADE AND BILLS RECEIVABLES (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **342,428** | 247,032 |
| 91 – 180 days | **65,500** | 236,846 |
| 181 – 365 days | **31,559** | 83,472 |
| Over 365 days | **3,236** | 380 |
| | **442,723** | 567,730 |

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

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 July | **4,549** | 1,905 |
| Exchange realignment | **66** | 154 |
| Recognised during the year | **3,633** | 2,490 |
| At 30 June | **8,248** | 4,549 |

Included in the provision for impairment loss of trade and bills receivables are individually impaired receivables with an aggregate balance of HK$8,248,000 (2011: HK$4,549,000). The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss is recognised.

## 29. TRADE AND BILLS RECEIVABLES (continued)

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

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Neither past due nor impaired | **407,928** | 483,878 |
| Past due but not impaired: | | |
| 181 – 365 days | **31,559** | 83,472 |
| Over 365 days | **3,236** | 380 |
| | **442,723** | 567,730 |

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

## 30. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Other receivables | **79,763** | 265,616 |
| *Less:* provision for impairment loss | **(2,465)** | (2,221) |
| | **77,298** | 263,395 |
| Prepayments | **73,518** | 72,945 |
| Deposits | **22,970** | 26,541 |
| Prepaid lease payments *(Note 20)* | **766** | 748 |
| | **174,552** | 363,629 |

As at 30 June 2011, included in other receivables are consideration receivable of approximately HK$79,836,000 for the disposal of the prepaid lease payments which had been fully settled during the year ended 30 June 2012.

## 30. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

As at 30 June 2012, included in other receivables are consideration receivable of approximately HK$52,546,000 (2011: HK$113,830,000) for the disposal of the medicine exploitation projects in year 2011. The balance has been fully repaid subsequent to the end of the reporting period.

As at 30 June 2012, included in other receivables is loan advanced to a third party with a principal amount of approximately HK$18,330,000 which is unsecured, bears fixed interest amount of approximately HK$61,000 and repayable in October 2012. No interests for the year ended 30 June 2012 has been recognised as the directors of the Company considered that the amount involved is insignificant.

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 July | **2,221** | 938 |
| Exchange realignment | **34** | 30 |
| Recognised during the year | **210** | 1,253 |
| At 30 June | **2,465** | 2,221 |

Included in the provision for impairment loss are individually impaired other receivables with an aggregate balance of HK$2,465,000 (2011: HK$2,221,000) which had been long outstanding. The Group does not hold any collateral over the balance of other receivables.

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **22,633** | 22,633 |

## 31. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 30 June 2012 included amounts of approximately HK$2,061,585,000 (2011: HK$1,441,206,000) denominated in RMB which is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances carry interest at market rates which range from 0.01% to 0.50% (2011: 0.01% to 0.50%) per annum.

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **33,730** | 15,391 |

## 32. TRADE PAYABLES

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **33,466** | 24,997 |
| 91 – 180 days | **3,399** | 2,043 |
| 181 – 365 days | **1,505** | 2,180 |
| Over 365 days | **3,269** | 3,029 |
| | **41,639** | 32,249 |

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

## 33. OTHER PAYABLES AND ACCRUED EXPENSES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accrued liabilities | **62,154** | 85,984 |
| Other payables | **33,412** | 34,404 |
| Receipt in advance | **881** | 818 |
| Deferred government grant *(Note)* | **3,128** | 3,080 |
| Deferred income *(Note 44)* | **4,888** | 4,810 |
| | **104,463** | 129,096 |

*Note:* Deferred government grant of approximately HK$3,128,000 (2011: HK$3,080,000) were received in previous years in respect of certain research and development projects of the Group which is refundable. As at 30 June 2012, the Group has not fulfilled the relevant condition attached to the grant, no amortisation has been recognised for the year ended 30 June 2012.

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **4,234** | 3,587 |

## 34. OBLIGATIONS UNDER FINANCE LEASES

The lease term of the finance leases was five years. Interest rate is fixed at 3.75% (2011: 3.75%) at the contract date. No arrangements have been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable under finance leases: | | | | |
| Within one year | **95** | 257 | **83** | 201 |
| In more than one year, but not more than two years | **95** | 257 | **89** | 217 |
| In more than two years, but not more than five years | **31** | 450 | **31** | 418 |
| In more than five years | **–** | 39 | **–** | 39 |
| | **221** | 1,003 | **203** | 875 |
| *Less:* future finance charges | **(18)** | (128) | **N/A** | N/A |
| Present value of lease obligation | **203** | 875 | | |
| *Less:* Amount due for settlement within twelve months (shown under current liabilities) | | | **(83)** | (201) |
| Amount due for settlements after twelve months | | | **120** | 674 |

For the year ended 30 June 2012 and 2011, the Group's obligation under finance leases is secured by the lessor's charge over the leased assets.

## 34. OBLIGATIONS UNDER FINANCE LEASES (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **203** | 875 |

## 35. BANK BORROWINGS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Analysed as: | | |
| Secured | **31,650** | 32,347 |

At 30 June 2012, the Group's bank borrowings are secured by the Group's buildings of approximately HK$36,432,000 (2011: HK$34,872,000) *(Note 19)* and prepaid lease payments of nil (2011: HK$4,525,000) *(Note 20)*.

The Group's bank borrowings are repayable within 1 year and carry variable-rate interest at the base rate published by the People's Bank of China plus 5% per annum to both years.

The range of the effective interest rates which are also equal to contracted rates on the Group's bank borrowings are 6.31% to 6.56% (2011: 6.363% to 6.626%) per annum.

All bank borrowings are denominated in RMB.

## 36. DERIVATIVE FINANCIAL INSTRUMENTS

| | *HK$'000* |
|---|---|
| At 1 July 2010 | 5,534 |
| Fair value change recognised in the consolidated income statement arising from continuing operations | (5,534) |
| At 30 June 2011 | – |

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

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

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

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

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | 38 | **133,703** | 133,703 |
| Current assets | | | |
| Amounts due from subsidiaries | 39 | **1,724,697** | 1,312,155 |
| Prepayments | | **180** | 180 |
| Bank balances and cash | | **218** | 10,627 |
| | | **1,725,095** | 1,322,962 |
| Current liabilities | | | |
| Amounts due to subsidiaries | 39 | **273,586** | 24,584 |
| Other payables and accrued expenses | | **821** | 298 |
| | | **274,407** | 24,882 |
| Net current assets | | **1,450,688** | 1,298,080 |
| Total assets less current liabilities | | **1,584,391** | 1,431,783 |
| Capital and reserves | | | |
| Share capital | 40 | **241,033** | 197,433 |
| Reserves | 41(b) | **1,140,890** | 1,167,223 |
| Proposed final dividend | 17 | **202,468** | 67,127 |
| | | **1,584,391** | 1,431,783 |

## 38. INVESTMENTS IN SUBSIDIARIES

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Unlisted investments, at cost | **133,703** | 133,703 |

Details of the principal subsidiaries held by the Company as at 30 June 2012 and 2011 are as follows:

| Name of subsidiary | Class of shares held | Place of incorporation/ establishment | Place of operations | Particulars of issued share capital/paid up registered capital | Attributable equity interest of the Group 2012 | Attributable equity interest of the Group 2011 | Principal activities |
|---|---|---|---|---|---|---|---|
| **Direct subsidiaries** | | | | | | | |
| Intended Features Limited | Ordinary shares | BVI | BVI | 375,875 ordinary shares of US$1 each | 100% | 100% | Investment holding |
| **Indirect subsidiaries** | | | | | | | |
| GHMM* | Paid up capital | PRC | PRC | RMB 466,909,000 | 100% | 100% | Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products |
| Factorr Universal Limited ("Factorr") | Ordinary shares | BVI | BVI | 200 ordinary shares of US$1 each | 69.5% | 69.5% | Investment holding |
| Guizhou Factorr ** | Paid up capital | PRC | PRC | RMB 100,000,000 | 75% | 75% | Manufacture and sale of biological medicine |
| DCX*** | Paid up capital | PRC | PRC | RMB 200,000,000 | 99.7% | 99.7% | Manufacture and sale of gynecological pharmaceutical products and medicinal healthcare products |
| 華諾威 **[1] | Paid up capital | PRC | PRC | RMB 1,000,000,000 | 65% | 65% | Manufacture and sale of bio-pharmaceutical medicine |
| Guilin Gu Jin**[1] | Paid up capital | PRC | PRC | RMB 1,000,000 | 100% | 100% | Investment holding |
| 西藏昌都地區康源醫藥有限公司 ("**昌都康源**")* | Paid up capital | PRC | PRC | RMB 5,000,000 | 80% | 80% | Trading of pharmaceutical products |
| 深圳市云晨廣江貿易有限公司**[2] | Paid up capital | PRC | PRC | RMB1,000,000 | 100% | N/A | Investment holding |

## 38. INVESTMENTS IN SUBSIDIARIES (continued)

*Notes:*

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

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

[2] On 6 July 2011, the Group incorporated 深圳市云晨廣江貿易有限公司 with the initial capital of RMB1,000,000 settled by cash.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, 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 subsisting at the end of the year or issued at any time during the both years.

## 39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

## 40. SHARE CAPITAL

| | Number of shares | Amount *HK$'000* |
|---|---|---|
| Ordinary share of HK$0.10 each | | |
| Authorised: | | |
| At 1 July 2010 | 2,000,000,000 | 200,000 |
| Increased on 6 January 2011 *(Note (a))* | 2,000,000,000 | 200,000 |
| At 30 June 2011 and 30 June 2012 | 4,000,000,000 | 400,000 |
| Issued and fully paid: | | |
| At 1 July 2010 | 1,602,341,600 | 160,234 |
| Bonus issue *(Note (b))* | 320,468,320 | 32,047 |
| Issue of shares upon exercise of share options *(Note (c))* | 51,520,000 | 5,152 |
| 30 June 2011 | 1,974,329,920 | 197,433 |
| Bonus issue *(Note (d))* | 401,721,984 | 40,172 |
| Issue of shares upon exercise of share options *(Note (e))* | 34,280,000 | 3,428 |
| 30 June 2012 | 2,410,331,904 | 241,033 |

*Notes:*

(a) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting held on 17 December 2010, the authorised share capital was increased from HK$200,000,000 to HK$400,000,000 by creation of an additional 2,000,000,000 ordinary shares of HK$0.10 each of the Company on 6 January 2011 which rank pari passu with the existing shares in all respect.

(b) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting held on 17 December 2010, bonus shares on the basis of one bonus share, credited as fully paid, for every five existing issued ordinary shares were approved. On 6 January 2011, 320,468,320 ordinary shares were issued to the shareholders. The new shares rank pari passu with the existing shares in all respect.

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

(d) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting held on 16 December 2011, bonus shares on the basis of one bonus share, credited as fully paid, for every five existing issued ordinary shares were approved. On 13 January 2012, 401,721,984 ordinary shares were issued to the shareholders. The new shares rank pari passu with the existing shares in all respect.

(e) During the year ended 30 June 2012, an aggregate of 34,280,000 share options had been exercised by certain employees of the Company at a subscription price of HK$0.8167 per share for a total consideration approximately of HK$27,996,000, resulting in an issue of 34,280,000 new ordinary shares of HK$0.10 each. The new shares rank pari passu with the existing shares in all respect.

## 41. RESERVES

### (a) The Group

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

*Share premium*

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

*Asset revaluation reserve*

Asset revaluation reserve represents the cumulative net change in the fair value of leasehold land and buildings held at the end of reporting period and is dealt with in accordance with the accounting policy in note 3.

*Share option reserve*

Share option reserve comprises the fair value of share options granted and vested which are yet to be exercised. The reserve is dealt with in accordance with the accounting policy of equity-settled share-based payment transaction set out in note 3.

*Statutory reserve*

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

*Other reserve*

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

## 41. RESERVES (continued)

### (b) The Company

| | Share premium HK$'000 | Share option reserve HK$'000 | (Accumulated losses) retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 July 2010 | 1,214,538 | 22,306 | (137,906) | 1,098,938 |
| Bonus shares issued | (32,047) | – | – | (32,047) |
| Issue of share upon exercise of share options | 50,552 | (13,628) | – | 36,924 |
| Profit for the year | – | – | 130,535 | 130,535 |
| Proposed final dividend | – | – | (67,127) | (67,127) |
| At 30 June 2011 | 1,233,043 | 8,678 | (74,498) | 1,167,223 |
| Bonus shares issued | (40,172) | – | – | (40,172) |
| Issue of share upon exercise of share options | 33,246 | (8,678) | – | 24,568 |
| Recognition of equity-settled share-based payments | – | 52,374 | – | 52,374 |
| Profit for the year | – | – | 140,531 | 140,531 |
| Dividends approved and distributed in respect of the previous year | – | – | (1,166) | (1,166) |
| Proposed final dividend | (202,468) | – | – | (202,468) |
| At 30 June 2012 | 1,023,649 | 52,374 | 64,867 | 1,140,890 |

The share premium account of the Company includes share premium of HK$936,809,000 (2011: HK$1,146,203,000) and the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor of HK$86,840,000 (2011: HK$86,840,000) pursuant to the Group Reorganisation.

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

## 42. DEFERRED TAXATION

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

**Deferred tax liabilities**

| | **Fair value adjustments arising from acquisition of subsidiaries** *HK$'000* | **Revaluation of leasehold buildings** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1 July 2010 | 60,079 | 4,636 | 64,715 |
| Exchange realignment | 1,272 | 966 | 2,238 |
| Debited to consolidated statement of comprehensive income for the year | – | 2,170 | 2,170 |
| Credited to consolidated income statement for the year | | | |
| – continuing operations | (6,399) | – | (6,399) |
| – effect from change of tax rate | (31) | – | (31) |
| At 30 June 2011 | 54,921 | 7,772 | 62,693 |
| Exchange realignment | 755 | 376 | 1,131 |
| Debited to consolidated statement of comprehensive income for the year | – | 2,828 | 2,828 |
| Credited to consolidated income statement for the year | (6,660) | – | (6,660) |
| At 30 June 2012 | 49,016 | 10,976 | 59,992 |

## 42. DEFERRED TAXATION (continued)

**Deferred tax assets**

| | Impairment loss on other receivables *HK$'000* | Tax losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 1 July 2010 | 6,171 | – | 6,171 |
| Exchange realignment | 266 | – | 266 |
| Debited to the consolidated income statement for the year | | | |
| – continuing operations | (2,104) | – | (2,104) |
| – effect from change of tax rate | (95) | – | (95) |
| Derecognised upon disposal of a subsidiary | (4,003) | – | (4,003) |
| At 30 June 2011 | 235 | – | 235 |
| Exchange realignment | 17 | – | 17 |
| Credited to the consolidated income statement for the year | | | |
| – continuing operations | 55 | 4,509 | 4,564 |
| At 30 June 2012 | 307 | 4,509 | 4,816 |

At the end of the reporting period, the Group has unused tax losses of HK$21,643,000 (2011: Nil) available for offset against future profits. A deferred tax asset has been recognised in respect of the above tax losses. The tax losses will expire in 2017.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding corporate income tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding corporate income tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable withholding rate is 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in PRC in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. As at 30 June 2012, the aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounting to approximately HK$121,154,000 (2011: HK$78,759,000).

## 43. SHARE OPTION SCHEME

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

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

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

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

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

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

## 43. SHARE OPTION SCHEME (continued)

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

| Date of grant | Vesting period | Exercise period | Exercise price per share Before adjustment | Exercise price per share After adjustment |
|---|---|---|---|---|
| 17 August 2009 | N/A | 17 August 2009 to 16 August 2012 | HK$0.9800 | HK$0.8167 *(Note i)* |
| 28 July 2011 | N/A | 28 July 2011 to 27 July 2013 | HK$2.0920 | HK$1.7430 *(Note ii)* |

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

**Year ended 30 June 2012**

| | Outstanding at 1 July 2011 | Granted during the year | Adjustment made during the year *(Note ii)* | Exercised during the year | Lapsed during the year | Outstanding at 30 June 2012 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr. Zhang Peter Y. | 1,560,000 | 1,900,000 | 380,000 | (1,560,000) | – | 2,280,000 |
| Mr. Deng Jie | 1,560,000 | 1,900,000 | 380,000 | (1,560,000) | – | 2,280,000 |
| Mr. Long Xian Feng | 15,600,000 | 1,900,000 | 380,000 | (15,600,000) | – | 2,280,000 |
| Mr. Zhou Chong Ke | 12,000,000 | 1,900,000 | 380,000 | (12,000,000) | – | 2,280,000 |
| Mr. Wee Ee Lim | – | 1,900,000 | 380,000 | – | – | 2,280,000 |
| Mr. Tarn Sien Hao | – | 1,900,000 | 380,000 | – | – | 2,280,000 |
| Professor Kung Hsiang Fu | – | 1,900,000 | 380,000 | – | – | 2,280,000 |
| Professor Tso Wung Wai | – | 1,900,000 | 380,000 | – | – | 2,280,000 |
| Mr. Hon Yiu Ming Matthew | – | 1,900,000 | 380,000 | – | – | 2,280,000 |
| | 30,720,000 | 17,100,000 | 3,420,000 | (30,720,000) | – | 20,520,000 |
| **Other employees** | 3,560,000 | 77,900,000 | 15,580,000 | (3,560,000) | – | 93,480,000 |
| | 34,280,000 | 95,000,000 | 19,000,000 | (34,280,000) | – | 114,000,000 |
| Exercisable at the end of reporting period | | | | | | 114,000,000 |
| Weighted average exercise price | HK$0.8988 | HK$2.0920 | HK$0.0020 | HK$0.8167 | – | HK$1.9175 |

## 43. SHARE OPTION SCHEME (continued)

Year ended 30 June 2011

| | Outstanding at 1 July 2010 | Granted during the year | Adjustment made during the year *(Note i)* | Exercised during the year | Lapsed during the year | Outstanding at 30 June 2011 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr. Zhang Peter Y. | 1,300,000 | – | 260,000 | – | – | 1,560,000 |
| Mr. Deng Jie | 1,300,000 | – | 260,000 | – | – | 1,560,000 |
| Mr. Long Xian Feng | 13,000,000 | – | 2,600,000 | – | – | 15,600,000 |
| Mr. Zhou Chong Ke | 10,000,000 | – | 2,000,000 | – | – | 12,000,000 |
| | 25,600,000 | – | 5,120,000 | – | – | 30,720,000 |
| **Other employees** | 45,900,000 | – | 9,180,000 | (51,520,000) | – | 3,560,000 |
| | 71,500,000 | – | 14,300,000 | (51,520,000) | – | 34,280,000 |
| Exercisable at the end of reporting period | | | | | | 34,280,000 |
| Weighted average exercise price | HK$0.9800 | – | HK$0.1970 | HK$0.8167 | – | HK$0.8988 |

In respect of the share options exercised during the year 30 June 2012, the weighted average share price at the date of exercise is HK$0.8167 (30 June 2011: HK$0.8988).

The fair value of the options granted on 28 July 2011 determined at the date of grant using the Binomial Option Pricing Model was HK$0.5513. The total fair value of the options granted was approximately HK$52,374,000 and was recognised during the year ended 30 June 2012.

## 43. SHARE OPTION SCHEME (continued)

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

| | **28 July 2011** |
|---|---|
| Closing price at the date of acceptance | HK$2.09 |
| Exercise price | HK$2.092 |
| Expected volatility | 50.78% |
| Expected life | 2 years |
| Risk-free rate | 0.254% |
| Expected dividend yield | 1.56% |

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

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

*Notes:*

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

ii) The exercise price of the share options is subject to adjustment in case of rights or bonus issue or other similar changes in the Company's share capital. Following the bonus issue which completed on 13 January 2012, as detailed in Note 40(d), the exercise price and the number of the share options outstanding were adjusted accordingly.

## 44. DEFERRED INCOME

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 July | **31,264** | – |
| Deferred income arise from disposal of a subsidiary during the year | **–** | 32,090 |
| Deferred income recognised during the year | **(4,898)** | (1,566) |
| Exchange realignment | **518** | 740 |
| At 30 June | **26,884** | 31,264 |
| Analysed for reporting purposes as: | | |
| Current liabilities included in other payable and accrued expenses *(Note 33)* | **4,888** | 4,810 |
| Non-current liabilities | **21,996** | 26,454 |
| At 30 June | **26,884** | 31,264 |

Pursuant to the exclusive distribution agreement dated 7 January 2008, 華諾威, a non-wholly owned subsidiary of the Group, had granted the exclusive distribution rights in bio-pharmaceutical products for ten years to 國美, a subsidiary being disposed in March 2011, in consideration of RMB40,000,000 (equivalent to approximately HK$42,978,000). The consideration is recognised by 華諾威 as deferred income on exclusive distribution rights over 10 years. The carrying value of the above deferred income was approximately RMB27,333,000 (equivalent to approximately HK$32,090,000) at date of disposal of 國美, and was recognised in the consolidated statement of financial position upon the disposal of 國美.

## 45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

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

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

## 46. DISPOSAL OF A SUBSIDIARY

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

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

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

## 47. DEEMED DISPOSAL OF SUBSIDIARIES

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

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

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

## 48. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the PRC whereby the Group is required to make contributions to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirement in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the Scheme is to pay the ongoing retired contribution under the Scheme.

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

During the year, the Group made retirement benefits scheme contributions totaling HK$4,658,000 (2011: HK$3,597,000). At the end of the reporting period, there are no forfeited contributions.

## 49. RELATED PARTY TRANSACTIONS

**(a)** Save as disclosed elsewhere in the consolidated financial statements, the Group had not entered into any other material related party transactions for the year ended 30 June 2012 and 2011.

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

The remuneration of directors and key management personnel during the year ended 30 June 2012 and 2011 are set out in Note 15. The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trend.

## 50. CAPITAL COMMITMENTS

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided for in respect of: | | |
| Acquisition of property, plant and equipment | **78,187** | 84,100 |
| Acquisition of technical knowhow | **709** | 698 |
| Prepaid lease payments | **61,100** | – |
| | **139,996** | 84,798 |
| Capital expenditure authorised but not contracted for in respect of: | | |
| Acquisition of property, plant and equipment | **816,297** | – |

## 51. OPERATING LEASE COMMITMENTS

### The Group as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for original terms ranging from one to fourteen years (2011: one to fourteen years) with fixed rentals over the term of the lease.

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

| | 2012 | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,225** | 1,894 |
| In the second to fifth year inclusive | **1,055** | 1,679 |
| More than five years | **33** | 39 |
| | **4,313** | 3,612 |

## 52. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2012, the Group fully disposed its available-for-sale investment in aggregate consideration of approximately HK$290,000,000. Further details are out in the announcements of the Company dated 4 July 2012 and 20 July 2012 respectively.

On 28 September 2012, the Board proposed the bonus issue to the shareholders on the basis of one bonus share for every five existing shares held by shareholders whose name appear on the register on 27 December 2012. The bonus shares will rank pari passu in all respects with the existing shares.

# SUMMARY FINANCIAL INFORMATION

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

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **1,312,127** | 1,157,263 | 808,642 | 649,154 | 806,204 |
| Profit before taxation | **774,249** | 355,825 | 322,430 | 157,925 | 214,496 |
| Taxation | **(79,278)** | (73,478) | (77,962) | (39,219) | (58,247) |
| Profit for the year from continuing operation | **694,971** | 282,347 | 244,468 | 118,706 | 156,249 |
| Profit for the year from discontinued operation | **–** | 192,944 | 117,446 | 66,228 | – |
| Profit for the year | **694,971** | 475,291 | 361,914 | 184,934 | 156,249 |
| Attributable to: | | | | | |
| Owners of the Company | **657,228** | 441,838 | 265,300 | 147,853 | 144,184 |
| Non-controlling interests | **37,743** | 33,453 | 96,614 | 37,081 | 12,065 |
| | **694,971** | 475,291 | 361,914 | 184,934 | 156,249 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 30 June | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **4,404,381** | 3,659,108 | 3,428,917 | 2,172,748 | 2,204,321 |
| Total liabilities | **(314,711)** | (333,028) | (346,271) | (300,408) | (672,821) |
| Non-controlling interests | **(183,203)** | (143,462) | (388,498) | (243,551) | (224,878) |
| | **3,906,467** | 3,182,618 | 2,694,148 | 1,628,789 | 1,306,622 |