China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00512

2009

Annual Report

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr Lau Wing Yuen

AUTHORISED REPRESENTATIVES

Mr Liu Chengwei
Mr Lau Wing Yuen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Mason Ching & Associates
Li & Partners Solicitors
Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Room 2501A, Hopewell Centre
183 Queen's Road East, Hong Kong

BUSINESS REVIEW

The Group completed the acquisition of 70.98% equity interests in Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") and the disposal of Bright Strong Profits Limited ("Bright Strong") in July 2008. Wuhan Grand also completed the acquisition of 52% equity interests in Wuhan Grand Hoyo Company Limited ("Wuhan Hoyo") as its associated company in November 2008. For the year ended 31 December 2008, the first half year mainly reflected the results of Bright Strong while the second half year mainly represented the results of Wuhan Grand.

For the year ended 31 December 2009, the Group's turnover was approximately HK$545,435,000 (2008: HK$269,882,000) which represented an increase of 102% as compared with that of the previous year. Gross profit of the Group for the year under review was HK$250,094,000 (2008: HK$109,746,000). The gross margin achieved during the year was about 46% (2008: 41%). The Group reported a consolidated profit attributable to owners of the Company of HK$28,344,000 as compared with a loss of HK$24,233,000 for the previous year. The turnaround in performance of the Group was mainly attributable to the increased profit contributions from Wuhan Grand.

Operating results

For the year ended 31 December 2009, the Group's operating results attributable to owners of the Company will be as follows after excluding the fair value gain and the effective interest expenses related to the convertible bond and the promissory note.

(in Hong Kong dollar thousands)	
After tax profit for the year	28,344
Less: Fair value gain arising from the issue of the promissory note	(17,244)
Add: Effective interests on the convertible bond and the promissory note	17,835
	28,935

Wuhan Grand

Wuhan Grand is mainly engaged in the development, production and sales of pharmaceutical preparations and raw material pharmaceuticals. For the year ended 31 December 2009, overall turnover increased by 10% when compared with that of the previous year. Turnover of pharmaceutical preparations recorded an increase of 22% while those for raw material pharmaceuticals recorded a slight drop of 3% when compared with that of the previous year.

Overall gross margin for the year ended 31 December 2009 was 46% (2008: 39%). Gross margin for pharmaceutical preparations was 57% (2008: 56%) while those for raw material pharmaceuticals was 31% (2008: 21%). The overall increase in gross margin was mainly attributable to the increase in sales of higher margin pharmaceutical preparations and the drop in costs of raw material pharmaceuticals.

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

(in RMB millions)	**2009**	2008	2007
Pharmaceutical preparations	**273**	223	205
Raw material pharmaceuticals	**207**	214	189
Turnover	**480**	437	394
Pharmaceutical preparations	**156**	125	105
Raw material pharmaceuticals	**65**	45	44
Gross profit	**221**	170	149
Net profit	**38**	28	20

For the year ended 31 December 2009, pharmaceutical preparations account for approximately 57% of the annual sales and approximately 71% of gross profit of Wuhan Grand. These products are mainly focus on cardiovascular, ophthalmic and antibiotic areas. Sales of Tirofiban, a key anti-platelet drug for the treatment of cardiovascular disease, has recorded a 67% growth in sales when compared with that of the previous year and it dominates the PRC hospital market. Pirenoxine sodium eye drop is our core eye product, while Enoxacin gluconate is our core antibiotic drug. Sales of these core products for the past three years were analysed as follows:

(in RMB millions)	**2009**	2008	2007
Tirofiban	**50**	30	20
Pirenoxine sodium eye drop	**23**	25	23
Enoxacin gluconate	**36**	32	32
Others	**164**	136	130
Turnover — Pharmaceutical preparations	**273**	223	205

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

(in RMB millions)	**2009**	2008	2007
Analgin	**141**	142	115
Metronidazole	**31**	35	29
Adrenaline bitartrate and Noradrenaline bitartrate	**18**	17	18
Others	**17**	20	27
Turnover — raw material paharmaceuticals	**207**	214	189

Wuhan Hoyo

Wuhan Hoyo is mainly engaged in the manufacture and sales of amino acid. Wuhan Grand acquired another 4% equity interests in Wuhan Hoyo during the year and it is now owned as to 56% by Wuhan Grand. For the year ended 31 December 2009, turnover increased by 21% when compared with that of the previous year. Gross margin for the year ended 31 December 2009 was 19% (2008: 14%). The increase in gross margin was mainly attributable to the increase in sales of higher margin acetyl cysteine during the year.

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

(in RMB millions)	**2009**	2008	2007
L-cysteine HCI monohydrate	**36**	30	41
L-cysteine HCI anhydrous	**19**	16	17
Acetyl cysteine	**29**	17	11
Carboxymethyl-L-cysteine	**14**	12	8
Others	**33**	33	29
Turnover	**131**	108	106
Gross profit	**25**	15	11
Net profit	**9**	5	5

PROSPECTS

On 2 March 2010, Wuhan Grand entered into two acquisition agreements to acquire 75.47% equity interests in Hubei Fuchi Chemical and Pharmaceutical Company Limited ("Hubei Fuchi") and 100% equity interests in Hubei Ruizhu Pharmaceutical Company Limited ("Hubei Ruizhu") respectively. Hubei Fuchi is principally engaged in the production of taurine, calcium superphosphate and dimethyl sulfate, while Hubei Ruizhu is principally engaged in the production of ophthalmic gels and eye drops.

Wuhan Grand has received a notice from Wuhan City Government requesting it to relocate its existing production facilities to other places within the next 3 years. Wuhan City Government will compensate Wuhan Grand for the relocation. Although the exact amount of compensation has not been finalised, it will be in the range between RMB700,000,000 to RMB1,000,000,000. As the expenses related to the relocation have not yet been known, any profit resulted from the relocation cannot be ascertained now. Wuhan Grand would like to take this opportunity to reorganise itself into three main operations, namely cardiovascular drug, ophthalmic medicine and raw material pharmaceuticals. As the relocation process will take place in around 3 years, Wuhan Grand will plan ahead and take all practical steps to minimise any disruption to its businesses.

As certain upstream raw materials of the Group's raw material pharmaceuticals are currently supplied by Hubei Fuchi, acquisition of Hubei Fuchi will allow the Group to relocate and upgrade its production facilities of raw material pharmaceuticals and also moving one step upward to control the production of these raw materials. Besides, one of Hubei Fuchi's main products, taurine, can supplement the pharmaceutical product line of the Group. Certain raw material pharmaceuticals currently produced by Wuhan Grand will be transferred to Hubei Fuchi which will become the main production centre for raw material pharmaceuticals.

With the acquisition of Hubei Ruizhu, Wuhan Grand will transfer most of the prescribed ophthalmic medicines currently produced by it to Hubei Ruizhu which will become the main production centre for high-end ophthalmic medicines. Most of the ophthalmic products of Hubei Ruizhu are high-end products and can supplement the current eye product line of the Group.

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

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

Financial resources and liquidity

As at 31 December 2009, the Group had current assets of HK$207,300,000 (31 December 2008: HK$176,661,000) and current liabilities of HK$264,450,000 (31 December 2008: HK$221,631,000). The current ratio was 0.78 at 31 December 2009 as compared with 0.80 at 31 December 2008.

The Group's cash and bank balances as at 31 December 2009 amounted to HK$60,227,000 (31 December 2008: HK$37,927,000), of which 1% were denominated in Hong Kong and United States Dollars and 99% in Renminbi.

As at 31 December 2009, the Group had outstanding bank loans of HK$92,195,000 (31 December 2008: HK$95,454,000), all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 5.31% to 5.58% (for the year ended 31 December 2008: 6.23% to 7.84%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK$205,667,000 (31 December 2008: HK$236,094,000). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 280% at 31 December 2009 as compared with 2,071% at 31 December 2008.

As at 31 December 2009, the convertible bond payable was approximately HK$48,997,000 (31 December 2008: HK$48,296,000). The promissory note payable was approximately HK$126,831,000 (31 December 2008: HK$128,191,000). The coupon rate for the convertible bond and the promissory note is 5% per annum. On 18 February 2010, Outwit Investments Limited opted to convert fully the HK$50,000,000 convertible bond into shares. The principal and the accrued interest for the promissory note are repayable on 23 February 2011.

On 18 February 2010, the Company completed the placing of 200,000,000 existing shares to investors and the subscription of 200,000,000 new shares by Outwit Investments Limited raising approximately HK$86,360,000, further improving the financial position of the Company.

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

Employees and remuneration policy

As at 31 December 2009, the Group employed about 2,400 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Contingent liabilities

Details of the Group's contingent liabilities at 31 December 2009 are set out in Note 41 to the consolidated financial statements.

Appreciation

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

Liu Chengwei
Chairman

Hong Kong, 30 March 2010

EXECUTIVE DIRECTORS

Mr Liu Chengwei, aged 36, was appointed executive director of the Company in July 2008. Mr Liu is the Chairman of the Company and is a director of Wuhan Grand Pharmaceutical Group Limited, the principal subsidiary of the Company. Mr Liu is also a director of Huadong Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. Mr Liu has over 10 years of financial and management experience in the PRC. Mr Liu is currently the General Manager of the Pharmaceutical Industry Division of China Grand Enterprises Incorporation ("China Grand") and a director of China Grand. Mr Liu worked for General Electric Company's PRC subsidiaries for 5 years before joining China Grand in 2001. Mr Liu holds a bachelor degree in International Economics from the Peking University and a master's degree in Business Administration from the China Europe International Business School.

Mr Hu Bo, aged 25, was appointed executive director of the Company in July 2008. Mr Hu has over 5 years of experience in network project management and property management. Mr Hu is currently a deputy general manager of a real estate company in the PRC. Mr Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from the University of Toronto. Mr Hu is a nephew of Mr Hu Kaijun, the beneficial owner of Outwit Investments Limited, which is the controlling shareholder of the Company.

Mr Shao Yan, aged 47, was appointed executive director of the Company in October 2008. Mr Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Mr Shao is responsible for overseeing the entire operations and general management of the Company. Mr Shao has over 20 years of experience in corporate management and venture capital investment. Mr Shao holds a master's degree in Business Administration from Guanghua School of Management of the Peking University and a doctor degree (Ph.D) in Management from the School of Politics and International Studies of Beijing Normal University.

Mr Zhang Ji, aged 48, was appointed non-executive director of the Company in November 2008 and was redesignated as executive director of the Company in February 2010. Mr Zhang has over 18 years of experience in conducting drug discovery research and development in the US pharmaceutical industry. Mr. Zhang is currently the R&D General Manager of the Pharmaceutical Industry Division of China Grand. Mr. Zhang worked for Schering-Plough Corporation, a US pharmaceutical company, for 14 years before joining China Grand in 2008. Mr. Zhang holds both a bachelor degree in Microbiology and a master's degree in Virology from Wuhan University, and a doctor degree (Ph.D) in Pharmacology and Molecular Biology from Chicago Medical School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie, aged 47, was appointed independent non-executive director of the Company in March 2005. Ms So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Lo Kai, Lawrence, aged 53, was appointed independent non-executive director of the Company in June 2008. Mr Lo has over 20 years of experience in wealth and asset management business. He has been the CEO of BSI-Generali Asia ("BSI") since October 2007 and is responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Mr Xin Dongsheng, aged 47, was appointed independent non-executive director of the Company in October 2008. Mr Xin is a director of Beijing Qun Ying Management Consultancy Company Limited, a company established in Beijing. Mr Xin is also a director of Tibet Cheezheng Tibetan Medicine Company Limited, the shares of which are listed on the main board of the Shenzhen Stock Exchange. He has over 20 years of experience in marketing, product development, business development, strategic research and consultancy in pharmaceutical business in the PRC. He holds an EMBA degree from the China Europe International Business School, a master's degree in Pharmacy and a bachelor degree in Medicine from the Xian Medical University.

SENIOR MANAGEMENT

Mr Lau Wing Yuen, aged 45, is the Chief Financial Officer of the Company. Mr Lau joined the Company in April 2005 and is responsible for finance, tax, accounting and company secretarial matters. Mr Lau holds a bachelor degree with major in Economics and Management Studies from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he worked for an international accounting firm and several listed companies in Hong Kong. He has over 20 years of experience in auditing, secretarial, accounting and corporate finance.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2009, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE REPORT

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year ended 31 December 2009.

BOARD OF DIRECTORS

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

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

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

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

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

AUDIT COMMITTEE

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

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

The audit committee held two meetings during the year ended 31 December 2009 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

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

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

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2009 are set out in Note 17 to the consolidated financial statements.

NOMINATION COMMITTEE

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

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES MEETINGS

	Meetings Attended/Held		
Directors	Board	Audit Committee	Remuneration Committee
Mr Liu Chengwei	4/4	N/A	2/2
Mr Hu Bo	4/4	N/A	N/A
Mr Shao Yan	4/4	N/A	N/A
Mr Zhang Ji	4/4	N/A	N/A
Ms So Tosi Wan, Winnie	4/4	2/2	2/2
Mr Lo Kai, Lawrence	4/4	2/2	2/2
Mr Xin Dongsheng	4/4	2/2	N/A

AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK$550,000.

FINANCIAL REPORTING

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

INTERNAL CONTROL

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The directors are pleased to present their report together with the audited consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in Notes 42 and 20 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out on pages 20 to 87.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil). No interim dividend was declared during the year (2008: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Note 42 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2009 are set out in Notes 42 and 20 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group during the year are set out in Note 27 to the consolidated financial statements.

DIRECTORS

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

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

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

Pursuant to bye-law 87(1) of the Company's bye-laws, Mr Liu Chengwei, Mr Hu Bo and Mr Xin Dongsheng retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTEREST

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

CONNECTED TRANSACTIONS

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

SHARE OPTION SCHEME

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

No share options were granted or exercised under the share option scheme during the year ended 31 December 2009 and there were no outstanding share options as at 31 December 2009.

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

As at 31 December 2009, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	746,979,654 *(Note 2)*	69.56% *(Note 2)*
Mr Hu Kaijun *(Note 1)*	746,979,654 *(Note 2)*	69.56% *(Note 2)*

Notes:

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

2. As at 31 December 2009, Outwit Investments Limited is also deemed to be interested in 166,666,667 shares (equivalent to approximately 15.52% of the total issued share capital of the Company) assuming issuance of all the shares issuable upon conversion of the convertible bond held by Outwit Investments Limited, details of which are set out in the circular of the Company dated 23 June 2008.

3. Upon completion of the placing and subscription of 200,000,000 shares and the full conversion of the convertible bond on 18 February 2010, Outwit Investments Limited held 913,646,321 shares, representing approximately 63.42% of the total issued share capital of the Company.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the five largest customers of the Group accounted for approximately 11% (2008: 14%) of the Group's total turnover, with the largest customer accounted for approximately 4% (2008: 5%).

The five largest suppliers, for the year ended 31 December 2009, accounted for approximately 32% (2008: 22%) of the Group's total purchases, with the largest supplier accounted for approximately 9% (2008: 8%).

None of the directors, their associates, or any shareholders of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital had an interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 10 to 12.

AUDITORS

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

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 30 March 2010

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

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

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 87, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affair of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
30 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Continuing operation			
Turnover	8	**545,435**	269,882
Cost of sales		**(295,341)**	(160,136)
Gross profit		**250,094**	109,746
Other income	9	**7,619**	7,060
Distribution costs		**(114,458)**	(61,059)
Administrative expenses		**(89,722)**	(56,234)
Other operating expenses	10	**(327)**	(163)
Discount on acquisition of subsidiaries	35	**—**	22,181
Loss on disposal of subsidiaries		**—**	(29,913)
Fair value gain on issuance of promissory note		**17,244**	—
Share of results of associates		**5,183**	1,759
Finance costs	11	**(26,847)**	(16,064)
Profit (loss) before tax	12	**48,786**	(22,687)
Income tax (charge) credit	13	**(6,873)**	4
Profit (loss) for the year from continuing operation		**41,913**	(22,683)
Discontinued operation	15		
Profit for the year from discontinued operation		**—**	1,966
Profit (loss) for the year		**41,913**	(20,717)
Other comprehensive income			
Exchange differences on translating foreign operations		**—**	(1,551)
Total comprehensive income (expense) for the year		**41,913**	(22,268)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Profit (loss) for the year attributable to:			
— Owners of the Company		**28,344**	(24,233)
— Minority interests		**13,569**	3,516
		41,913	(20,717)
Total comprehensive income (expense) attributable to:			
— Owners of the Company		**28,344**	(25,784)
— Minority interests		**13,569**	3,516
		41,913	(22,268)
Earnings (loss) per share from continuing and discontinued operations	16		
Basic *(HK cents)*		**2.64**	(2.26)
Diluted *(HK cents)*		**2.44**	(2.26)
Earnings (loss) per share from continuing operation	16		
Basic *(HK cents)*		**2.64**	(2.44)
Diluted *(HK cents)*		**2.44**	(2.44)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	18	**137,977**	132,237
Interests in leasehold land held for own use under operating leases	19	**196,499**	201,467
Interests in associates	20	**44,882**	36,745
Available-for-sale financial assets	21	**20,791**	21,202
Intangible assets	22	**1,252**	1,579
		401,401	393,230
Current assets			
Inventories	23	**54,968**	64,295
Trade and other receivables	24	**85,696**	64,821
Interests in leasehold land held for own use under operating leases — current portion	19	**5,006**	5,044
Pledged bank deposits	25	**1,403**	4,574
Bank balances and cash	25	**60,227**	37,927
		207,300	176,661
Current liabilities			
Trade and other payables	26	**137,904**	142,240
Bank loans — secured	27	**69,468**	77,273
Convertible bond	31	**48,997**	—
Tax payable		**8,081**	2,118
		264,450	221,631
Net current liabilities		**(57,150)**	(44,970)
Total assets less current liabilities		**344,251**	348,260
Non-current liabilities			
Bank loans — secured	27	**22,727**	18,181
Deferred taxation	28	**43,241**	44,683
Amount due to holding company	29	**22,229**	19,951
Convertible bond	31	**—**	48,296
Promissory note/other payable	32	**126,831**	128,191
		215,028	259,302
Net assets		**129,223**	88,958

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	33	**10,739**	10,739
Reserves		**22,213**	(6,131)
Equity attributable to owners of the Company		**32,952**	4,608
Minority interests		**96,271**	84,350
Shareholders' equity		**129,223**	88,958

The consolidated financial statements on pages 20 to 87 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital HK$'000	Share premium HK$'000	Convertible bond reserve HK$'000	Statutory reserves HK$'000 (note)	Translation reserve HK$'000	Accumulated losses HK$'000	Equity attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	10,739	94,457	—	148,158	(68,554)	(227,623)	(42,823)	980	(41,843)
Other comprehensive expenses for the year	—	—	—	—	(1,551)	—	(1,551)	—	(1,551)
Loss for the year	—	—	—	—	—	(24,233)	(24,233)	3,516	(20,717)
Total comprehensive income (expenses) for the year	10,739	94,457	—	148,158	(70,105)	(251,856)	(68,607)	4,496	(64,111)
Recognition of equity component of convertible bond	—	—	3,900	—	—	—	3,900	—	3,900
Reserves released upon disposal of subsidiaries	—	—	—	(148,158)	69,959	148,158	69,959	—	69,959
Deferred tax arising on issue of convertible bond	—	—	(644)	—	—	—	(644)	—	(644)
Acquisition of subsidiaries	—	—	—	—	—	—	—	80,903	80,903
Transfer	—	—	—	1,732	—	(1,732)	—	—	—
Disposal of subsidiaries	—	—	—	—	—	—	—	(1,049)	(1,049)
At 31 December 2008 and 1 January 2009	10,739	94,457	3,256	1,732	(146)	(105,430)	4,608	84,350	88,958
Profit for the year and total comprehensive income for the year	—	—	—	—	—	28,344	28,344	13,569	41,913
Dividends paid to minority interests	—	—	—	—	—	—	—	(1,648)	(1,648)
Transfer	—	—	—	4,367	—	(4,367)	—	—	—
At 31 December 2009	10,739	94,457	3,256	6,099	(146)	(81,453)	32,952	96,271	129,223

Note:

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Operating activities			
Profit (loss) before tax from continuing operation		**48,786**	(22,687)
Profit before tax from discontinued operation		**—**	1,966
Profit (loss) before tax		**48,786**	(20,721)
Adjustments for:			
Amortisation of intangible assets		**327**	163
Amortisation of interests in leasehold land held for own use under operating leases		**5,006**	2,640
Depreciation of investment properties		**—**	2,142
Depreciation of property, plant and equipment		**11,282**	7,689
Dividend income from equity investments		**(32)**	—
Fair value gain on issuance of promissory note		**(17,244)**	—
Finance costs		**26,847**	16,064
Gain on disposal of property, plant and equipment		**(40)**	(408)
Loss on disposal of subsidiaries		**—**	29,913
Discount on acquisition of subsidiaries		**—**	(22,181)
Loss on disposal of available-for-sale financial assets		**187**	—
Impairment loss on inventories		**292**	528
Impairment loss on trade and other receivables		**838**	316
Bank interest income		**(421)**	(950)
Reversal of impairment loss on trade and other receivables		**(631)**	(267)
Share of results of associates		**(5,183)**	(1,759)
Operating cash flows before movements in working capital		**70,014**	13,169
Decrease (increase) in inventories		**9,035**	(16,694)
(Increase) decrease in trade and other receivables		**(3,887)**	22,335
(Decrease) increase in trade and other payables		**(5,586)**	9,664
Net cash generated from operations		**69,576**	28,474
Income tax paid		**(2,352)**	(396)
Net cash generated from operating activities		**67,224**	28,078

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(17,707)**	(16,836)
Acquisition of additional interests in associates		**(2,954)**	(35,454)
Decrease (increase) in pledged bank deposits		**3,171**	(4,574)
Proceeds from disposal of property, plant and equipment		**725**	950
Bank interest income received		**421**	950
Proceeds from disposal of available-for-sale financial assets		**224**	275
Dividend income received from available-for-sale financial assets		**32**	—
Net cash inflow from acquisition of subsidiaries	35	**—**	56,329
Repayment from a former holding company of a subsidiary		**—**	47
Net cash outflow of disposal of subsidiaries	36	**—**	(31,540)
Net cash used in investing activities		**(16,088)**	(29,853)
Financing activities			
Repayments of short-term bank loans		**(88,636)**	(26,442)
Interest paid		**(9,012)**	(9,303)
Dividends paid to minority shareholders		**(1,648)**	—
Bank loan raised		**68,182**	—
Other loans raised		**—**	7,000
Advance from holding company		**2,278**	6,543
Net cash used in financing activities		**(28,836)**	(22,202)
Net increase (decrease) in cash and cash equivalents		**22,300**	(23,977)
Cash and cash equivalents at beginning of year		**37,927**	67,282
Effect of foreign exchange rate changes		**—**	(5,378)
Cash and cash equivalents at end of year, representing			
Bank balances and cash		**60,227**	37,927

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net current liabilities of approximately HK$57,150,000 as at 31 December 2009.

In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration of the followings:

1. as detailed in note 43, subsequent to 31 December 2009, approximately HK$86,360,000 was received in cash from issuance of new ordinary shares to Outwit; and

2. as detailed in note 43, subsequent to 31 December 2009, Outwit exercised the conversion right to convert the HK$50,000,000 convertible bond into 166,666,667 new ordinary shares.

Accordingly, the directors consider that the Group will have sufficient working capital to meet its financial obligations when they fall due for the next twelve months from 31 December 2009, and the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate`
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) – INT 13	Customer Loyalty Programmes
HK (IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK (IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – INT 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

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

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

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

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has changed the basis of measurement of the Group's segment profit or loss (see note 8). However, the adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK (IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – INT 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

Goodwill

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

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. Impairment loss for goodwill is not reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's indentifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition of a subsidiary is recognised immediately in profit or loss.

Investments in associates

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

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

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the statement of consolidated financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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.

(i) Financial assets

The Group classifies its financial assets into one of the following categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Available-for-sale financial assets

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

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

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

Impairment loss on financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Convertible bond contains liability and equity components

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity *(Continued)*

Convertible bond contains liability and equity components (Continued)

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

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

Equity instruments

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

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

(iii) Financial guarantee contracts

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(iv) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

Borrowing costs

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

Employee benefits

(i) Employee entitlements

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

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

(ii) Retirement benefits scheme contribution

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

Share options granted to employees

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets acquired in a business combination

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

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

Research and development expenditure

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the lease term on a straight-line basis.

Inventories

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

Revenue recognition

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

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

Government grants

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered 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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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 judgments

As disclosed in note 2, the directors have prepared the consolidated financial statements on a going concern basis as they are of the opinion that the Group will be able to generate positive cash flows from its business. This conclusion is arrived at after reviewing the cash flow forecast prepared by the Group's management and taking into account the expected outcome of cost controls. Any significant deviations from the assumptions adopted by management in preparing the cash flows forecast of the Group would affect the conclusion that the Group is able to continue as going concern.

Key sources of estimation uncertainty

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

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

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

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

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

Impairment of trade and other receivables

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

Impairment of inventories

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

Estimated impairment of assets

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

- property, plant and equipment;
- interests in leasehold land held for own use under operating leases;
- available-for-sale financial assets;
- intangible assets; and
- investments in subsidiaries and associates

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

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

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

Estimated impairment of assets *(Continued)*

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

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank loans, amount due to holding company, convertible bond and promissory note disclosed in respective notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

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

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Available-for-sale financial assets	**20,791**	21,202
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	**73,793**	47,738
Pledged bank deposits	**1,403**	4,574
Bank balances and cash	**60,227**	37,927
Financial liabilities at amortised cost		
Convertible bond	**48,997**	48,296
Other financial liabilities		
Trade and other payables	**109,384**	142,240
Bank loans — secured	**92,195**	95,454
Promissory note/other payable	**126,831**	128,191
Amount due to holding company	**22,229**	19,951

(b) Financial risk management objectives and policies

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

i. Fair value of financial assets and financial liabilities

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

The fair value of convertible bond is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. *Foreign currency risk*

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. Certain bank balances, trade and other receivables and trade and other payables are denominated in the functional currency as at 31 December 2009. The functional currency is also used to settle expenses for PRC operations.

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

Sensitivity analysis

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

	2009	2008
	HK$'000	*HK$'000*
Increase (decrease) in profit for the year		
— if HK$ weakens against of RMB	**2,443**	2,248
— if HK$ strengthens against of RMB	**(2,443)**	(2,248)

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

iii. *Interest rate risk*

The Group are primarily exposed to fair value interest rate risk in relation to fixed-rate convertible bond (see note 31) and cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates (see note 25) and variable-rate borrowings (see note 27). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. Interest rate risk *(Continued)*

Interest rate sensitivity

If the interest rates had been increased/decreased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's profit after tax and accumulated loss would increase/decrease by approximately HK$1,892,000 (2008: loss after tax and accumulated losses would increase/decrease by approximately HK$955,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits.

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

iv. Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2009 as its financial assets due within one year were less than its financial liabilities due within one year. The Group had net current liabilities of approximately HK$57,150,000 as at 31 December 2009 (2008: HK$44,970,000). The Group primarily relies on bank loans as a significant source of liquidity.

At 31 December 2009, maximum banking facilities in an aggregate amount of approximately HK$187 million (2008: HK$117 million) were available from the Group's principal bankers, of which approximately HK$75 million (2008: HK$95 million) has been utilised.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. *Liquidity risk* *(Continued)*

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities based on the agreed repayment terms, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

As at 31 December 2009

	Total contractual undiscounted cash flow	**Within one year or on demand**	**More than one year but less than two years**	**Carrying amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade and other payables	**109,384**	**109,384**		**109,384**
Bank loans — secured	**93,313**	**69,468**	**23,845**	**92,195**
Amount due to holding company	**24,452**	**—**	**22,229**	**22,229**
Convertible bond	**50,000**	**50,000**	**—**	**48,997**
Promissory note	**150,000**	**—**	**150,000**	**126,831**
	427,149	**228,852**	**196,074**	**399,636**

As at 31 December 2008

	Total contractual undiscounted cash flow	Within one year or on demand	More than one year but less than two years	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	142,240	142,240	—	142,240
Bank loans — secured	102,460	82,945	19,515	95,454
Amount due to holding company	19,951	—	19,951	19,951
Convertible bond	50,000	—	50,000	48,296
Other payable	150,000	—	150,000	128,191
	464,651	225,185	239,466	434,132

7. FINANCIAL INSTRUMENTS *(Continued)*

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

v. *Credit risk*

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

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

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

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

Except for the financial guarantees given by the Group as set out in note 41, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 41.

8. TURNOVER AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

For the year ended 31 December 2009, the Group is only engaged in manufacture and sales of pharmaceutical and healthcare products. And the chief executive officer, being the chief operating decision maker of the Group reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2008, the Group had two reportable segments — (1) manufacture and sales of pharmaceutical and healthcare products; and (2) properties holding for earning rental income. These segments were managed separately as they belonged to different industries and required different operating system and strategies. In July 2008, the Group disposed of the properties holding business (see note 15). An analysis of the Group's segment information for the year ended 31 December 2008 is presented below:

	Continuing operation	**Discontinued operation**	
	Manufacture and sales of pharmaceutical and healthcare products	**Properties holding for earning rental income**	**Consolidated**
	2008	**2008**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Segment Revenue			
Turnover	269,882	—	269,882
Other income	7,060	4,108	11,168
	276,942	4,108	281,050
Segment result	(5,818)	1,966	(3,852)
Unallocated corporate expenses			(805)
Finance costs			(16,064)
Loss before tax			(20,721)
Income tax			4
Loss for the year			(20,717)
As at 31 December			
Assets			
Segment assets	490,269	—	490,269
Interests in associates	36,745	—	36,745
Unallocated corporate assets	—	—	42,877
Consolidated total assets	527,014	—	569,891
Liabilities			
Segment liabilities	185,244	—	185,244
Unallocated corporate liabilities	—	—	295,689
Total liabilities	185,244	—	480,933

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Other segment information

Segment information about these businesses is presented below:

	Continuing operation Manufacture and sales of pharmaceutical and healthcare products 2008 HK$'000	Discontinued operation Properties holding for earning rental income 2008 HK$'000	Consolidated 2008 HK$'000
OTHER INFORMATION			
Capital expenditure	16,836	—	16,836
Depreciation and amortisation	10,492	2,142	12,634
Impairment loss on inventories	528	—	528
Impairment loss on trade and other receivables	316	—	316
Gain on disposal of property, plant and equipment	408	—	408
Discount on acquisition of subsidiaries	(22,181)	—	(22,181)
Loss on disposal of subsidiaries	29,913	—	29,913
Reversal of impairment loss on trade and other receivables	(267)	—	(267)

Geographical information

The Group's operations are located in the PRC (country of domicile), America, Europe and Asia.

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

	Revenue from external customers		Non-current assets	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
PRC	**422,256**	201,876	**401,401**	393,230
America	**49,325**	25,113	**—**	—
Europe	**25,111**	17,195	**—**	—
Asia other than PRC	**41,917**	16,932	**—**	—
Others	**6,826**	8,766	**—**	—
Total	**545,435**	269,882	**401,401**	393,230

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Information about major customers

For the years ended 31 December 2009 and 2008, none of the Group's sales from continuing operation to a single customer amounted to 10% or more of the Group's total revenue.

9. OTHER INCOME

	Continuing operation		Discontinued operation			
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Rental income	**681**	—	**—**	4,398	**681**	4,398
Less: direct operating expenses that generated rental income during the year	**—**	—	**—**	(290)	**—**	(290)
	681	—	**—**	4,108	**681**	4,108
Sales of raw materials, scrap and other materials	**1,216**	2,584	**—**	—	**1,216**	2,584
Dividend income	**32**	—	**—**	—	**32**	—
Reversal of impairment loss on trade and other receivables	**631**	267	**—**	—	**631**	267
Gain on disposal of property, plant and equipment	**40**	408	**—**	—	**40**	408
Bank interest income	**421**	950	**—**	—	**421**	950
Government grants *(Note)*	**3,475**	615	**—**	—	**3,475**	615
Others	**1,123**	2,236	**—**	—	**1,123**	2,236
	7,619	7,060	**—**	4,108	**7,619**	11,168

Note: During the year 31 December 2009, government grants of approximately HK$3,475,000 have been received to subsidise the development and industrialisation of pharmaceutical products in the PRC and to encourage export sales.

10. OTHER OPERATING EXPENSES

	2009	2008
	HK$'000	*HK$'000*
Amortisation of intangible assets	**327**	163

11. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank loans wholly repayable within five years	6,812	6,438
Interest on other loan wholly repayable within five years	—	2,865
Interest on amount due to holding company	2,000	—
Effective interest on convertible bond	1,951	2,196
Effective interest on promissory note/other payable	15,884	4,565
Interest on discounted bills receivable with recourse	200	—
	26,847	16,064

12. PROFIT (LOSS) BEFORE TAX

	Continuing operation		Discontinued operation		Consolidated	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Profit (loss) before tax is stated after charging (crediting):						
Staff costs (excluding directors' emoluments) comprises:						
— Wages and salaries	45,309	29,914	—	—	45,309	29,914
— Retirement benefits schemes contributions	5,373	2,837	—	—	5,373	2,837
	50,682	32,751	—	—	50,682	32,751
Auditors' remuneration						
— audit services	550	830	—	—	550	830
— non-audit services	—	2,600	—	—	—	2,600
Share of tax of associates	1,256	148	—	—	1,256	148
Cost of inventories recognised as an expense	295,341	160,136	—	—	295,341	160,136
Depreciation of property, plant and equipment	11,282	7,689	—	—	11,282	7,689
Depreciation of investment properties	—	—	—	2,142	—	2,142
Operating lease rentals in respect of land and buildings	1,875	199	—	—	1,875	199
Amortisation of interests in leasehold land held for own use under operating leases	5,006	2,640	—	—	5,006	2,640
Loss on disposal of available-for-sale financial assets	187	—	—	—	187	—
Gain on disposal of property, plant and equipment	(40)	(408)	—	—	(40)	(408)

13. INCOME TAX

	2009	2008
	HK$'000	*HK$'000*
Current tax:		
PRC	**8,315**	711
Deferred tax *(note 28)*	**(1,442)**	(715)
	6,873	(4)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both years.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No change of tax rate is applied for those high and new technology enterprises ("HNTE").

In addition, Wuhan Grand Pharmaceutical Group Company Limited, a subsidiary of the Group was exempted from PRC enterprise income tax for the two years starting from 2005 and is entitled to a 50% reduction on the PRC enterprise income tax for the following three years in accordance with Articles 8 of Income Tax Law of PRC for enterprises with Foreign Investment and Foreign Enterprises. All corresponding PRC enterprise income tax relating to the taxable profit of Wuhan Grand Pharmaceutical Group Company Limited during the year have been recognised in the consolidated statement of comprehensive income at a tax rate of 12.5%. All other PRC subsidiaries of the Group are subject to the tax rate of 25%.

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

13. INCOME TAX *(Continued)*

The income tax charge (credit) for the year is reconciled to the profit (loss) per the consolidated statement of comprehensive income as follows:

	2009 *HK$'000*	2008 *HK$'000*
Profit (loss) before tax		
Continuing operation	**48,786**	(22,687)
Tax at the domestic income tax rate of 25% (2008: 25%)	**12,196**	(5,672)
Tax effect of share of profit of associates	**(1,295)**	(148)
Tax effect of expenses not deductible for tax purpose	**10,177**	8,261
Tax effect of income not taxable for tax purpose	**(5,301)**	(5,376)
Tax effect of deductible temporary differences not recognised	**—**	715
Utilisation of deductible temporary differences previously not recognised	**(715)**	—
Income tax on concessionary rate	**(8,268)**	(711)
Tax effect of tax losses not recognised	**79**	2,927
Tax charge (credit) for the year	**6,873**	(4)

The applicable tax rate of 25% (2008: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profits streams. Included in the above are tax losses of HK$316,000 (2008: HK$11,708,000), which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

The Group also has deductible temporary differences of HK$2,860,000 as at 31 December 2008. No deferred tax asset has been recognised in respect of such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period. (2008: nil).

15. DISCONTINUED OPERATION

On 28 April 2008, the Group entered into a sale agreement to dispose of a subsidiary, Bright Strong Profits Limited ("Bright Strong"), which carried out manufacture and sales of pharmaceutical and healthcare products and property holding for earning rental income. The profit from discontinued operation related to the property holding for earning rental income segment which the disposal completed on 17 July 2008, on which date control of Bright Strong passed to the acquirer.

The profit for the year ended 31 December 2008 from the discontinued operation is analysed as follows:

	2008 *HK$'000*
Profit of property holding for earning rental income	1,966

The results of the discontinued operation for the period from 1 January 2008 to 17 July 2008, which have been included in the consolidated statement of comprehensive income, were as follows:

	Period ended 17 July 2008 *HK$'000*
Other income	4,108
Administrative expenses	(2,142)
Profit for the period	1,966

During the year ended 31 December 2008, the discontinued operation of property holding business contributed approximately HK$1,966,000 to the Group's net operating cash flows.

16. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

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

	2009	2008
	HK$'000	*HK$'000*
Earnings		
Profit (loss) for the year attributable to owners of the Company		
Continuing operation	**28,344**	(26,199)
Discontinued operation	**—**	1,966
	28,344	(24,233)
Effect of dilutive potential ordinary shares:		
Interest on convertible bond	**1,951**	2,196
Profit (loss) for the year for the purposes of diluted earnings (loss) per share	**30,295**	(22,037)

	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basis earnings (loss) per share	**1,073,934,000**	1,073,934,000
Effect of dilutive potential ordinary shares:		
Convertible bond	**166,666,667**	166,666,667
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,240,600,667**	1,240,600,667

From continuing operation

The calculation of basic earnings (loss) per share of continuing operation is based on the profit attributable to owners of the Company of approximately HK$28,344,000 (2008: loss attributable to owners of the Company of approximately HK$26,199,000) and on 1,073,934,000 ordinary shares in issue during both years ended 31 December 2009 and 2008.

16. EARNINGS (LOSS) PER SHARE *(Continued)*

From discontinued operation

Basic earnings per share for the discontinued operation for the year ended 31 December 2008 is 0.18 HK cents per share based on the profit attributable to owners of the Company of approximately HK$1,966,000 and 1,073,934,000 ordinary shares in issue during the year ended 31 December 2008.

Diluted loss per share

Diluted loss per share for the year ended 31 December 2008 is the same as the basic loss per share as the conversion of the Company's outstanding convertible bond would result in a decrease in basic loss per share.

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2009	2008
	HK$'000	*HK$'000*
Details of directors' emoluments are as follows:		
Fees:		
Executive directors	**—**	72
Independent non-executive directors	**300**	255
	300	327
Other emoluments:		
Salaries and allowances	**838**	223
Retirement benefits scheme contributions	**6**	3
	1,144	553

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2009 and 2008.

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

(a) Directors' emoluments *(Continued)*

The emoluments paid or payable to each of the seven directors for the year ended 31 December 2009 (2008: eleven) were as follows:

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

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

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

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2008 are as follows:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Liu Cheng wei (Appointed on 21 July 2008)	—	—	—	—
Mr. Hu Bo (Appointed on 21 July 2008)	—	—	—	—
Mr. Shao Yan (Appointed on 17 October 2008)	—	223	3	226
Ms. He Jin Hong (Resigned on 21 July 2008)	72	—	—	72
Mr. Ha Sze Tung Sharp Stone (Resigned on 21 July 2008)	—	—	—	—
Non-executive director:				
Mr. Zhang Ji (Appointed on 28 November 2008)	—	—	—	—
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	—	—	180
Mr. Lo Kai, Lawrence (Appointed on 25 June 2008)	30	—	—	30
Mr. Xin Dongsheng (Appointed on 17 October, 2008)	15	—	—	15
Mr. Wei Dong (Resigned on 21 July 2008)	30	—	—	30
Mr. Yang Yue (Resigned on 28 March 2008)	—	—	—	—
Total	327	223	3	553

During both years ended 31 December 2009 and 2008, no directors of the Company waived any emoluments.

(b) The five highest paid individuals of the Group included one (2008: nil) director whose emoluments was included above. The emoluments of the remaining four (2008: five) highest paid individuals, which are individually below HK$1,000,000, were as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Employees		
Salaries and allowances	**1,582**	1,661
Retirement benefits schemes contributions	**30**	19
	1,612	1,680

During both years ended 31 December 2009 and 2008, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Equipment HK$'000	Motor vehicles HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2008	122,130	39,215	8,315	5,274	5,429	—	180,363
Exchange realignment	7,548	2,350	467	(1)	312	(4)	10,672
Additions	—	4,412	912	140	11	11,361	16,836
Acquired on acquisition of subsidiaries	52,512	56,905	2,570	4,440	—	5,978	122,405
Disposal of subsidiaries	(129,647)	(42,598)	(8,311)	(5,278)	(5,325)	—	(191,159)
Disposals	(85)	(301)	(133)	(253)	(15)	—	(787)
Transfer	1,172	2,144	611	—	—	(3,927)	—
At 31 December 2008 and 1 January 2009	53,630	62,127	4,431	4,322	412	13,408	138,330
Additions	826	7,037	444	4,568	—	4,832	17,707
Disposals	—	(109)	(12)	(888)	—	—	(1,009)
Transfer	12,129	3,216	—	—	—	(15,345)	—
At 31 December 2009	66,585	72,271	4,863	8,002	412	2,895	155,028
Accumulated depreciation and impairment							
At 1 January 2008	96,852	32,908	5,938	4,222	5,002	—	144,922
Exchange realignment	6,025	1,799	326	263	286	—	8,699
Depreciation provided for the year	2,500	3,578	1,193	346	72	—	7,689
Disposal of subsidiaries	(103,594)	(36,016)	(5,853)	(4,574)	(4,935)	—	(154,972)
Eliminated on disposals	(48)	—	(83)	(101)	(13)	—	(245)
At 31 December 2008 and at 1 January 2009	1,735	2,269	1,521	156	412	—	6,093
Depreciation provided for the year	3,998	5,854	894	536	—	—	11,282
Eliminated on disposals	—	(75)	(3)	(246)	—	—	(324)
At 31 December 2009	5,733	8,048	2,412	446	412	—	17,051
Carrying values							
At 31 December 2009	60,852	64,223	2,451	7,556	—	2,895	137,977
At 31 December 2008	51,895	59,858	2,910	4,166	—	13,408	132,237

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

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

Buildings	2.5% — 5%
Plant and machinery	5% — 10%
Equipment	12% — 20%
Motor vehicles	12%
Others	18% — 20%

The buildings are held in the PRC under medium-term leases.

Certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as detailed in note 38.

19. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's interests in leasehold land held for own use under operating leases is held under the medium-term leases in the PRC:

	2009	2008
	HK$'000	*HK$'000*
At beginning of year	**206,511**	4,554
Arising on acquisition of subsidiaries	**—**	209,120
Disposal of subsidiaries	**—**	(4,772)
Amortisation for the year	**(5,006)**	(2,640)
Exchange realignment	**—**	249
At end of year	**201,505**	206,511

Certain leasehold land in the Group has been pledged to banks to secure general bank loans granted to the Group as detailed in note 38.

	2009	2008
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	**5,006**	5,044
Non-current assets	**196,499**	201,467
	201,505	206,511

20. INTERESTS IN ASSOCIATES

	2009	2008
	HK$'000	*HK$'000*
Cost of unlisted investments	**38,408**	35,454
Share of post-acquisition profits and other comprehensive income	**6,474**	1,291
Share of net assets of associates	**44,882**	36,745

The amount of goodwill arising on acquisitions of associates is set out below:

	HK$'000
Cost	
At 1 January 2008	2,689
Arising on acquisition of associates	555
Disposal of subsidiaries	(2,689)
At 31 December 2008 and 1 January 2009	555
Arising on acquisition of additional interests in associates	76
At 31 December 2009	631
Accumulated impairment loss	
At 1 January 2008	2,689
Disposal of subsidiaries	(2,689)
At 31 December 2008, 1 January 2009 and 31 December 2009	—
Carrying values	
At 31 December 2009	631
At 31 December 2008	555

20. INTERESTS IN ASSOCIATES *(Continued)*

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

	2009 **HK$'000**	2008 HK$'000
Total assets	**86,948**	85,341
Total liabilities	**(7,927)**	(15,745)
Net assets	**79,021**	69,596
Group's share of net assets of associates	**44,251**	36,190
Revenue	**148,006**	121,782
Profit for the year	**9,576**	5,821
Group's share of results of associates for the year	**5,183**	1,759

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

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest attributable to the Group 2009	2008	Particulars of issued/paid-up capital	Principal activities
Wuhan Grand Hoyo Company Limited (Formerly known as Wuhan Wuda Hongyuan Company Limited) ("Wuhan Grand Hoyo") *(Note)*	PRC/PRC	Limited liability company	**39.75%**	30.91%	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Wuhan Grand Hoyo Yaoye Company Limited (Formerly known as Wuhan Wuda Hongyuan Yaoye Company Limited) *(Note)*	PRC/PRC	Limited liability company	**39.75%**	30.91%	Paid up capital RMB20,500,000	Manufacture and distribution of amino acid products

Wuhan Grand Hoyo Yaoye Company Limited was 100% owned by Wuhan Grand Hoyo.

20. INTERESTS IN ASSOCIATES *(Continued)*

Note: On 10 December 2009, the Group further acquired 4% equity interests in Wuhan Grand Hoyo at a consideration of RMB2,600,000 (approximately HK$2,955,000) of which HK$76,000 was recognised as goodwill.

Despite Wuhan Grand Pharmaceutical Group Company Limited ("Wuhan Grand") has 56% effective interests in Wuhan Grand Hoyo, Wuhan Grand has no control in Wuhan Grand Hoyo as Wuhan Grand only has the right to nominate only 3 out of 7 of the directors of Wuhan Grand Hoyo. The directors of the Company consider that the Group does exercise significant influence over Wuhan Grand Hoyo and it is therefore classified as an associate of the Group.

Subsequent to 31 December 2009, Wuhan Grand Hoyo amended its Articles of Association such that the Group has the right to nominate 4 out of 7 directors of Wuhan Grand Hoyo. As a result, the Group has controlled the majority of the directors of Wuhan Grand Hoyo, and Wuhan Grand Hoyo became a subsidiary of the Group.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	HK$'000	*HK$'000*
Unlisted debt securities, at cost	**93**	317
Unlisted equity securities, at cost	**20,698**	20,885
	20,791	21,202

The above debt securities represented debt securities with fixed interest ranging from 7.8% to 10.1% per annum (2008: 7.8% to 10.1% per annum) and maturity dates in 2010, and stated at cost less impairment at the end of the reporting period.

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

22. INTANGIBLE ASSETS

	Acquired patent rights *HK$'000* *(Note (a))*	Acquired exclusive distribution right *HK$'000* *(Note (b))*	Total *HK$'000*
Cost			
At 1 January 2008	—	14,000	14,000
Arising on acquisition of subsidiaries	1,744	—	1,744
Exchange realignment	(2)	—	(2)
At 31 December 2008, 1 January 2009 and 31 December 2009	1,742	14,000	15,742
Accumulated amortisation and impairment loss			
At 1 January 2008	—	14,000	14,000
Provided for the year	163	—	163
At 31 December 2008 and 1 January 2009	163	14,000	14,163
Provided for the year	327	—	327
At 31 December 2009	490	14,000	14,490
Carrying values			
As at 31 December 2009	1,252	—	1,252
As at 31 December 2008	1,579	—	1,579

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

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

22. INTANGIBLE ASSETS *(Continued)*

Notes:

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

(b) In August 2005, the Group entered into an agreement with a third party to acquire a subsidiary, Seapearl Trading Limited, at a consideration of HK$14,000,000. Such subsidiary has an exclusive license for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by an independent third party in any parts of the world other than the PRC. The value of the acquired distribution rights is amortised on the straight-line basis over 10 years.

Impairment testing on intangible assets

The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2009. The directors assess the impairment with reference to the estimated recoverable amount based on the higher of cash flow forecast from future use and the disposal value, and the estimated recoverable amount of the intangible assets approximately HK$1,252,000. The discount rate in measuring the amount of value in use was 6% in relation to patent rights (2008: 8%). Accordingly, no impairment loss has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009.

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

23. INVENTORIES

	2009	2008
	HK$'000	*HK$'000*
Raw materials	**11,744**	15,289
Work-in-progress	**17,472**	13,289
Finished goods	**27,897**	37,570
	57,113	66,148
Less: impairment loss	**(2,145)**	(1,853)
	54,968	64,295

24. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	30,306	22,462
Bills receivables	21,821	25,276
Discounted bills receivable	17,195	—
Other receivables, deposits and prepayments	21,855	22,472
Less: impairment loss on other receivables	(5,481)	(5,389)
	85,696	64,821

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

	2009 HK$'000	2008 HK$'000
Within 90 days	29,252	19,879
91 — 180 days	2,999	2,033
181 — 365 days	39	558
Over 365 days	27,777	35,392
	60,067	57,862
Less: accumulated impairment	(29,761)	(35,400)
	30,306	22,462

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

Trade receivables amounted to approximately HK$29,252,000 as at 31 December 2009 (2008: HK$19,879,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**35,400**	3,379
Arising on acquisition of subsidiaries	**—**	35,143
Disposal of subsidiaries	**—**	(3,379)
Impairment losses recognised	**701**	316
Impairment losses reversed	**(589)**	—
Amount written off as uncollectible	**(5,751)**	—
Exchange realignment	**—**	(59)
Balance at end of the year	**29,761**	35,400

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

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

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**5,389**	19,666
Arising on acquisition of subsidiaries	**—**	4,087
Disposal of subsidiaries	**—**	(18,023)
Impairment losses reversed	**(42)**	(267)
Amount written off as uncollectible	**(3)**	—
Impairment losses recognised	**137**	—
Exchange realignment	**—**	(74)
Balance at end of the year	**5,481**	5,389

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Included in the Group's trade receivable balances are balances with aggregate carrying amount of HK$4,417,000 (2008: 2,583,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 100 days (2008: 150 days).

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**3,577**	—
91 — 180 days	**840**	2,033
181 — 365 days	**—**	550
	4,417	2,583

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

		United States Dollars
	HK$'000	***$'000***
As at 31 December 2009	51	37
As at 31 December 2008	9	38

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

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

26. TRADE AND OTHER PAYABLES

	2009 HK$'000	2008 HK$'000
Trade payables	**42,316**	41,367
Bills payables	**21,035**	37,302
Accrued charges and other creditors	**74,553**	63,571
	137,904	142,240

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

	2009 HK$'000	2008 HK$'000
Within 90 days	**24,624**	22,357
Over 90 days	**17,692**	19,010
	42,316	41,367

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

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

27. BANK LOANS — SECURED

	2009 HK$'000	2008 HK$'000
Carrying amount repayable		
On demand or within one year	**69,468**	77,273
More than one year but not exceeding two years	**22,727**	18,181
	92,195	95,454

All bank loans are secured by buildings and interests in leasehold land held for own use under operating lease of the Group in the PRC as detailed in note 38, which are denominated in RMB and granted by banks in the PRC. These bank loans bear variable interest rates from 5.31% to 5.58% (2008: 6.23% to 7.84%) per annum.

28. DEFERRED TAXATION

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

	Convertible Bond *HK$'000*	Interests in leasehold land held for own use under operating leases *HK$'000*	Total *HK$'000*
At 1 January 2008	—	—	—
Fair value adjustment from acquisition of subsidiaries	—	44,754	44,754
Issue of convertible bond	644	—	644
Credited to profit or loss	(156)	(559)	(715)
At 31 December 2008 and 1 January 2009	488	44,195	44,683
Credited to profit or loss	(323)	(1,119)	(1,442)
At 31 December 2009	165	43,076	43,241

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$2,805,000 (31 December 2008: HK$1,549,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. AMOUNT DUE TO HOLDING COMPANY

The amount is unsecured, interest bearing of 10% per annum and not repayable within the next twelve months from the end of the reporting period. For the year ended 31 December 2008, the amount is unsecured, interest-free and not repayable within next twelve months.

30. PROVISION FOR STAFF WELFARE AND BONUS

	2008
	HK$'000
At the beginning of year	67,889
Disposal of subsidiaries	(72,112)
Exchange realignment	4,223
At the end of year	—

Provisions for staff welfare and bonus represents staff welfare and bonus provided in prior years for a subsidiary operated in the PRC under the relevant laws and regulations.

31. CONVERTIBLE BOND

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

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

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

	HK$'000
Liability component on initial recogination	46,100
Interest expenses charged	2,196
At 31 December 2008 and 1 January 2009	48,296
Interest payable	(1,250)
Interest expenses charged	1,951
At 31 December 2009	48,997

32. PROMISSORY NOTE/OTHER PAYABLE

On 24 February 2009, the Company issued an unsecured promissory note with principal value of HK$150,000,000 as part of the consideration for the acquisition of the entire share capital of Best Forward Group Limited ("Best Forward Group") as detailed in Note 35.

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

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

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

The movement of the promissory note is set out below:

	HK$'000
Other payable	123,626
Interest expenses charged	4,565
At 31 December 2008 and 1 January 2009	128,191
Interest expenses charged	15,884
Fair value gain on issuance of promissory note	(17,244)
At 31 December 2009	126,831

33. SHARE CAPITAL

	2009 and 2008 Ordinary shares of HK$0.01 each	
	Number of shares	**Amount**
	'000	***HK$'000***
Authorised		
Ordinary shares of HK$0.01 each	100,000,000	1,000,000
Issued and fully paid		
Ordinary shares of HK$0.01 each	1,073,934	10,739

34. SHARE OPTIONS

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

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

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

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

No share options had been granted to directors or employees for both years ended 31 December 2009 and 2008.

35. DISCOUNT ON ACQUISITION OF SUBSIDIARIES

Acquisition of 100% equity interest in Best Forward Group

On 16 July 2008, the Group acquired 100% equity interest of Best Forward Group at a consideration of HK$200,000,000 from Long Smart. This acquisition has been accounted for using purchase method. The amount of discount on the acquisition was approximately HK$22,181,000.

The acquisition contributed revenue of approximately HK$236,585,000 and profit of HK$12,659,000 attributable to the equity holders of the Company for the period from the date of completion to 31 December 2008. If the acquisition were completed on 1 January 2008, the acquisition would have contributed revenue of approximately HK$436,802,000 and profit of approximately HK$27,979,000 attributable to the equity holders of the Company for the year ended 31 December 2008. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

35. DISCOUNT ON ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of 100% equity interest in Best Forward Group *(Continued)*

For the details, please refer to the circular of the Company dated on 23 June 2008.

The net assets acquired in the transaction and the excess of fair value of net assets acquired in the transaction over the cost of acquisition are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000 (Note 1)	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	122,405		122,405
Interests in leasehold land held for own use under operating leases	84,879	124,241	209,120
Intangible assets	1,744		1,744
Available-for-sale financial assets	21,477		21,477
Inventories	51,965		51,965
Trade and other receivables	96,052		96,052
Amount due from a former holding company of a subsidiary	47		47
Bank balances and cash	56,329		56,329
Trade and other payables	(140,320)		(140,320)
Tax payable	(1,803)		(1,803)
Deferred taxation	—	(44,754)	(44,754)
Bank loans — secured	(95,552)		(95,552)
	197,223	79,487	276,710
Minority interests			(80,903)
Discount on acquisition			(22,181)
			173,626
Satisfied by:			
Convertible bond			50,000
Promissory note *(Note 2)*			123,626
			173,626
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			56,329

35. DISCOUNT ON ACQUISITION OF SUBSIDIARIES *(Continued)*

The discount on acquisition of subsidiaries was attributable to the ability of the Group in negotiating the agreed terms of transactions with the vendor.

Note 1: The professional valuation of interests in leasehold land held for own use under operating leases and property were performed by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer in Hong Kong.

The fair value of the interests in leasehold land held for own use under operating leases and properties are using the open market basis by reference to recent transactions for similar properties.

Note 2: As part of the consideration for the acquisition, promissory note of HK$150,000,000 was issued on 24 February 2009. The fair value of the promissory note of the Company determined using amortised cost method approximately HK$112,506,000.

36. DISPOSAL OF SUBSIDIARIES

Disposal of 100% equity interest in Bright Strong Profits Limited

As referred to in note 15, on 17 July 2008, the Group disposed of the entire equity interest in Bright Strong. Bright Strong contributed turnover of approximately HK$33,297,000 and loss of approximately HK$11,714,000 to the Group from its operation. For details, please refer to the circular of the Company dated 23 June 2008.

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	36,187
Interests in leasehold land held for own use under operating leases	4,772
Investment properties	72,885
Interests in associates	4,808
Trade and other receivables	17,155
Inventories	11,914
Bank balances and cash	32,540
Trade and other payables	(60,259)
Bank loans — secured	(64,464)
Other loan — secured	(21,423)
Provision for staff welfare & bonus	(72,112)
	(37,997)
Minority interests	(1,049)
Release of translation reserve	69,959
Loss on disposal	(29,913)
Cash consideration	1,000
Net cash outflow arising on disposal:	
Cash consideration	1,000
Bank balances and cash disposed of	(32,540)
	(31,540)

37. RELATED PARTY TRANSACTIONS

Other than the amount due to holding company as disclosed in note 29, and the guarantee issued by the Group as disclosed in note 41, no other significant transactions with related parties were entered into during the year ended 31 December 2009.

During the year ended 31 December 2008, the Group entered into the following transactions with related parties:

(i) On 16 July 2008, the Company completed to acquire the entire issued share capital of Best Forward Group Limited from Long Smart Investments Limited ("Long Smart") which is wholly owned by Outwit. The consideration of HK$200,000,000 was paid in the following manners:

— HK$150,000,000, by the issuance of promissory note of the Company to Long Smart;

— HK$50,000,000, by the issuance of convertible bond of the Company to Long Smart.

(ii) On 28 November 2008, the Company completed to acquire the 52% equity interests in Wuhan Grand Hoyo from Wuhan Donghu Innovation and High Tech Investments Limited, a substantial shareholder of a subsidiary of the Company. The consideration was approximately HK$35,454,000.

(iii) Sales to Guangzhou Apollo Enterprise Company Limited, a former associate of the Company of approximately HK$14,594,000.

Compensation of key management personnel

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

	2009	2008
	HK$'000	*HK$'000*
Short-term benefits	**2,720**	2,211
Post-employment benefits	**36**	22
	2,756	2,233

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

38. PLEDGE OF ASSETS

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

	2009 *HK$'000*	2008 *HK$'000*
Interests in leasehold land held for own use under operating leases	**174,619**	179,625
Buildings	**29,645**	51,895
Pledged bank deposits	**1,403**	4,574
	205,667	236,094

39. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2009 *HK$'000*	2008 *HK$'000*
Within one year	**337**	73
In the second to fifth year inclusive	**1,074**	—
	1,411	73

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

39. COMMITMENTS *(Continued)*

(a) Operating lease commitment *(Continued)*

The Group as lessor

The Group sub-leases certain of its premises and offices under operating lease arrangement. The rental income earned during the year was approximately HK$681,000 (2008: HK$4,108,000). The total future minimum lease payments under non-cancellable operating lease are as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**433**	—
In the second to fifth year inclusive	**145**	—
	578	—

(b) Capital commitment

	2009	2008
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**780**	1,004
Capital expenditure in respect of the acquisition of property, plant and equipment authorised for but not contract for	**—**	1,442

40. RETIREMENT BENEFITS SCHEMES

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

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

40. RETIREMENT BENEFITS SCHEMES *(Continued)*

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

41. CONTINGENT LIABILITIES

At 31 December 2008, the Group has issued the guarantee to a bank in respect of bank facilities granted to Wuhan Grand Hoyo, an associate of the Group, of RMB12,000,000 (approximately HK$13,636,000). The associate drew down the bank loan of RMB10,000,000 (approximately HK$11,364,000).

The fair value of guarantee at 31 December 2008 was not material and is not recognised in consolidated financial statements.

The guarantee is released during the year ended 31 December 2009.

42. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY

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

	Notes	2009 HK$'000	2008 HK$'000
Non-current asset			
Investments in subsidiaries	*(a)*	**200,000**	200,000
Current assets			
Trade and other receivables		**402**	376
Bank balances and cash		**51**	9
		453	385
Current liabilities			
Trade and other payables		**2,911**	3,310
Convertible bond		**48,997**	—
		51,908	3,310
Net current liabilities		**(51,455)**	(2,925)
Total assets less current liabilities		**148,545**	197,075

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

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Deferred taxation		**166**	488
Amount due to holding company		**22,229**	19,951
Convertible bond		**—**	48,296
Promissory note/other payable		**126,831**	128,191
		149,226	196,926
Net (liabilities) assets		**(681)**	149
Capital and reserves			
Share capital		**10,739**	10,739
Reserves	*(b)*	**(11,420)**	(10,590)
		(681)	149

(a) Investments in subsidiaries

	Company 2009 HK$'000	Company 2008 HK$'000
Unlisted shares, at cost	**200,000**	200,000

The following is a list of principal subsidiaries of the Company as at 31 December 2009 and 2008:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held	Particulars of issued/paid-up capital	Principal activities
Wuhan Grand Pharmaceutical Group Company Limited	PRC	Limited liability company	70.98%	Contributed capital RMB85,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao Pharmaceutical Co., Limited	PRC	Limited liability company	70.06%	Contributed capital RMB31,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies

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

(a) Investments in subsidiaries *(Continued)*

Note:

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

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

(b) Reserves of the Company

	Share premium HK$'000	Convertible bond reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	94,457	—	141,783	(263,873)	(27,633)
Recognition of equity component of convertible bond	—	3,900	—	—	3,900
Deferred tax arising from issue of convertible bond	—	(644)	—	—	(644)
Profit for the year	—	—	—	13,787	13,787
At 31 December 2008 and 1 January 2009	94,457	3,256	141,783	(250,086)	(10,590)
Transfer	—	—	(141,783)	141,783	—
Loss for the year	—	—	—	(830)	(830)
At 31 December 2009	94,457	3,256	—	(109,133)	(11,420)

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

Loss attributable to shareholders of approximately HK$830,000 (2008: profit of HK$13,787,000) has been dealt with in the consolidated financial statements of the Company.

43. EVENTS AFTER THE REPORTING PERIOD

(i) Subsequent to 31 December 2009, Outwit entered into a placing agreement and agreed to place 200,000,000 existing shares of the Company at HK$0.45 per share to independent third parties ("Placing"). Outwit also entered into a subscription agreement with the Company and agreed to subscribe 200,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company at the subscription price equal to the proceeds from successfully placed shares, less any commission, costs, expenses and charges paid by Outwit pursuant to and in connection with the Placing ("Subscription").

Details of the Placing and the Subscription are set out, inter alia, in the circular of the Company dated 28 January 2010. An ordinary resolution approving the Placing and the Subscription was passed at the special general meeting of the Company held on 12 February 2010. The Subscription was completed on 18 February 2010, and 200,000,000 new ordinary shares of the Company were issued and allotted to Outwit.

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

(ii) Pursuant to the resolution passed in the general meeting held on 26 February 2010, the shareholders of Wuhan Grand had approved the issuance of new equity interests to its existing shareholders on a pro rata basis. The Group will subscribe in aggregate 75.95% of new equity interests in Wuhan Grand at consideration of approximately RMB75,953,000, such subscription is subjected to the approval obtained from the State Administration of Foreign Exchange of the PRC. Upon completion, the Group will held 72.82% equity interests of the enlarged registered capital in Wuhan Grand.

On 16 March 2010, the shareholders of Wuhan Grand varied the terms of the issuance of new equity interests to its existing shareholders such that the aggregate par value of all new equity interests offered for subscription be increased from RMB50,000,000 to RMB100,000,000, all other terms of the subscription remain unchanged. Upon subscription of its final entitlement to the new equity interests, the Group's equity interests in Wuhan Grand increased 2.69% from 70.98% to 73.67% of the enlarged registered capital in Wuhan Grand.

(iii) On 2 March 2010, Wuhan Grand entered into an agreement with 33 shareholders of 湖北富馳化工醫藥股份有限公司 (Hubei Fuchi Chemical and Pharmaceutical Company Limited) ("Hubei Fuchi") ("Fuchi Vendors") . Pursuant to the agreement, Wuhan Grand agreed to purchase 75.47% equity interests in Hubei Fuchi from the Fuchi Vendors at a consideration of approximately RMB117 million. On the same date, Wuhan Grand entered into another agreement with 珠海中珠股份有限公司 (Zhuhai Zhongzhu Joint Stock Company Limited) ("Zhuhai Zhongzhu") and 湖北園林青食品有限公司 (Hubei Yuanlinqing Food Company Limited) ("Hubei Yuanlinqing"). Pursuant to the agreement, Wuhan Grand agreed to purchase the entire equity interests in 湖北瑞珠制藥有限公司 (Hubei Ruizhu Pharmaceutical Company Limited) ("Hubei Ruizhu") from Zhuhai Zhongzhu and Hubei Yuanlinqing at consideration of approximately RMB110 million.

The acquisition of Hubei Fuchi and Hubei Ruizhu are subject to the approval of shareholders of the Company. After completion, Hubei Fuchi and Hubei Ruizhu will become subsidiaries of Wuhan Grand. Details of the acquisition are set out, inter alia, in the announcement of the Company dated 3 March 2010.

FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**545,435**	269,882	49,045	42,408	46,384
Profit (loss) before tax	**48,786**	(20,721)	(56,090)	(12,186)	(108,804)
Income tax	**(6,873)**	4	2,205	245	—
Profit (loss) for the year	**41,913**	(20,717)	(53,885)	(11,941)	(108,804)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**608,701**	569,891	198,699	219,876	197,400
Total liabilities	**(479,478)**	(480,933)	(240,542)	(207,956)	(174,695)
Net assets (liabilities)	**129,223**	88,958	(41,843)	11,920	22,705