



# JIWA BIO-PHARM HOLDINGS LIMITED 積華生物醫藥控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2327)

## 2012 Annual Report

\*for identification only





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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Lau Yau Bor (*Chairman*)  
Lau Kin Tung (*Vice Chairman*)  
Chan Hing Ming (*Chief Executive Officer*)

#### Independent Non-Executive Directors

Chiu Wai Piu  
Choy Ping Sheung  
Fung Tze Wa

### AUTHORISED REPRESENTATIVES

Lau Yau Bor  
Lau Kin Tung

### COMPANY SECRETARY

Yue Pui Kwan

### AUDIT COMMITTEE

Fung Tze Wa (*Chairman*)  
Chiu Wai Piu  
Choy Ping Sheung

### REMUNERATION COMMITTEE

Choy Ping Sheung (*Chairman*)  
Chiu Wai Piu  
Fung Tze Wa

### NOMINATION COMMITTEE

Chiu Wai Piu (*Chairman*)  
Choy Ping Sheung  
Fung Tze Wa

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANY ORDINANCE

2904 & 2906, Tower One  
Lippo Centre  
89 Queensway  
Central  
Hong Kong

### AUDITOR

BDO Limited  
*Certified Public Accountants*

### PRINCIPAL BANKERS

Hang Seng Bank Limited  
Nanyang Commercial Bank Ltd.  
Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited  
Bank of Bermuda Building  
6 Front Street  
Hamilton HM 11  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### COMPANY WEBSITE

[www.jiwa.com.hk](http://www.jiwa.com.hk)

### STOCK CODE

2327



## CHAIRMAN'S STATEMENT

I am pleased to present the results of Jiwa Bio-Pharm Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2012 (the "Year" or the "Period") to the shareholders.

### RESULTS

During the period under review, the Group recorded a turnover of HK\$203,787,000, representing an increase of 16.2% as compared to HK\$175,309,000 of the same period last year. During the Year, profit attributable to owners of the Company amounted to HK\$70,620,000, compared to HK\$255,663,000 of the same period of last year, of which HK\$193,865,000 was deemed as one-off net gain from the disposal of subsidiaries. Excluding this income item, profit attributable to owners of the Company increased by 14.3% from the same period of last year.

### DIVIDEND

The Board recommends the payment of a final dividend of HK2.1 cents per share for the year ended 31 March 2012. This proposed dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 6 July 2012 and will be payable on around 6 August 2012 to shareholders on the register of members on 17 July 2012.

### PROSPECTS

The Group completed the first phase of reorganization during the past year, and the proceeds from the reorganization were partly distributed to our shareholders last year in an endeavor to share the gain on disposal of our pharmaceutical business. The proceeds also provided financial support to the Group's effort for business diversification.

Over the past year, the management of the Group has ardently explored investment projects and deployed professional teams for analysis of potential return and risks in a number of industries. The Company has consistently upheld the practice of meticulous management as it progressed on the route of business diversification.

Looking into the future, the Company will proactively seek business development and opportunities in the three major areas of trading, R&D project management and investment. In view of the relatively unstable global economy in the coming year, the Group will lay out a complex cautious view on the global recovery in 2012. Given the co-existence of risk and opportunity, the Group will continue to strengthen its corporate governance, excel in risk management efforts, and balance the investment risks of different industries and projects as it strives for optimization of its industry value and continued enhancement of shareholder's return.

### APPRECIATION

On behalf of the Board, I would like to express my deepest appreciation for all staff of the Group for their excellent contribution, thank our shareholders for their trust and acknowledge our business partners for their support.

**Lau Yau Bor**

*Chairman*

Hong Kong, 24 May 2012



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Trading Business

During the Period, turnover from the trading business was HK\$203,787,000, representing an increase of 16.2% from the previous year; the segmental results amounted to HK\$28,930,000, representing an increase of 4.4% from the previous year. Trading product sales of the Company mainly include import prescription drugs sold indirectly to Kunming Jida Pharmaceutical Company Limited ("KJP", a 49% owned associated company of the Group) via an authorised and independent import and export company and a small portion of health care products manufactured in the People's Republic of China ("PRC"). After completion of the reorganization, KJP has established a subsidiary in Hong Kong, which is specifically responsible for KJP's new trading business and direct procurement from suppliers in Europe to strengthen its competitive edges. With the gradual expansion of scale of KJP, the pharmaceutical trading business of the Group has been significantly downsized. However, the Group is ardently looking at trading opportunities in different regions and industries, building on its market network in Europe, ASEAN and China, as well as the extensive experience of its management in trading business.

### R&D and Project Management

The Group has commenced joint effort chemical and biological researches with R&D institution in Hong Kong since 2007. It has also established a R&D center in Kunming. Its products developed can be applied in pharmaceutical, cosmetic and health products. During the Period, one of the pharmaceutical projects has achieved ground breaking results for further development.

During the Period, loss of this segment amounted to HK\$1,680,000. The management is optimistic towards this business and is proactively identifying R&D projects with strong potentials. It is expected that this business segment will bring along considerable income to the Group as the above project progress.

### Investment and Treasury Function

During the Period, profits of this segment amounted to HK\$4,395,000, which was mainly derived from gain from treasury products and rental income. The Group is cautiously sidelined for the development of the global economy.

Under the Group's existing treasury management policy, the Group would manage the excess short term cash fund to purchase treasury products with relatively higher yield return under limited risk exposure. As at 31 March 2012, the value of treasury products amounted to HK\$161,032,000. The Group purchased these certain treasury products from well-known bankers during the year, all of which were under the principal protected by high credit rating bankers. From the valuation reports issued by independent valuer Roma Appraisals Limited on 10 April 2012, these treasury products comprise of cash component and derivative components. The directors of the company considered that the cash components of these treasury products were not less than HK\$153,000,000 as at 31 March 2012, such high cash portion reflected a high liquidity value with limited risk exposure. The Company is actively seeking opportunity to invest and diversify the Group's business with the proceeds received from the deemed disposal of KJP, Yunnan Jiwa Pharm Logistics Company Limited ("YJPL"), and Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP"). The management from time to time reviews the market situations to arrive the decision of exit from these treasury products in order to ensure healthy financial position of the Group.

In May 2012, the Group acquired a unit in a Grade A commercial building for HK\$20,070,000 that can be used in conjunction with the adjacent unit currently held by the Group to enhance the overall value of the properties and generate rental income to the Group.

### Strategic Investments

In early 2011, KJP has placed and issued 30% of its equity to strategic investors, and also reorganized its businesses in the PRC through including the Company's wholly-owned subsidiaries YJPL and JJRP into the PRC pharmaceutical business structure that is headed by KJP, (collectively "Jida Group"). The reorganization generated a net gain of HK\$193,865,000, with Jida Group becoming a 49%-owned associated company of the Group from 30 March 2011. During the Period, Jida Group has generated a profit of HK\$50,689,000 to the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS

From the long-term perspective, the PRC pharmaceutical market possesses strong growth potential. However, before ratification of the system completes, the pharmaceutical industry will remain under the impact of the strong industry policy. Pharmaceutical enterprises will continue to face challenges such as lower bidding price and cost increases, while industry diversification will further aggravate. Under an environment of “either progress or regress” and “elimination of the weak and survival of the strong”, small and medium pharmaceutical enterprises have to fight for the leading position in different subsectors to consolidate their competitiveness before they will be able to capitalize on the immense opportunities of the PRC pharmaceutical market.

Following the introduction of strategic partner and the structural reorganization last year, the management of Jida Group is bound to become increasingly internationalized, enterprised and professionalized, which is in turn advantageous to its own development.

### FINANCIAL REVIEW

#### Liquidity

As at 31 March 2012, cash and cash equivalents of the Group totalled approximately HK\$58,532,000 (2011: approximately HK\$9,506,000), of which approximately 30.0% are in Hong Kong dollars, 54.1% in RMB, 4.9% in US dollars, 8.9% in Euro, 2.0% in CHF and 0.1% in Macau Pataca. The increase in cash and cash equivalents is mainly attributable to a result of the receipt of cash proceeds under the mentioned structural reorganization in March 2011 and an increase in bank borrowings.

As at 31 March 2012, the Group had aggregate banking facilities of approximately HK\$581,030,000 (2011: approximately HK\$363,350,000) of which approximately HK\$283,988,000 was utilized (2011: approximately HK\$155,037,000). This comprised of as to approximately HK\$256,071,000 in short term bank loans and approximately HK\$4,992,000 in letter of credit issued by the relevant banks to independent third parties. The increase in total bank borrowings are mainly due to the increase in the bank borrowings against pledged bank deposits and pledged treasury products.

#### Interest rate risk

The Group's bank borrowings was mainly denominated in HK dollar and US dollar in order to minimize currency risk. As at 31 March 2012, the gearing ratio was approximately 27% (2011: approximately 15%), calculated based on the Group's total bank borrowings of approximately HK\$256,071,000 (2011: approximately HK\$135,505,000) over the Group's total assets of approximately HK\$932,953,000 (2011: approximately HK\$905,098,000).

#### Foreign currency risk

The Group is subject to foreign currency risk as certain bills payable arising from import of purchases from European countries are denominated in EUROS. Management had hedged with EURO forward contracts to minimize the foreign currency risk.

#### Credit risk

The Group has a pragmatic approach towards credit risk management. New customers are usually not allowed to purchase on credit and the payment conduct of clients are monitored both to facilitate the determination of credit limit as well as a control over whether new sale deliveries should be made. The Group's sale staff and marketing agents pay regular visits to customers to promote the Group's products and at the same time would update information on the clients' credit worthiness. The remuneration of sales staff and marketing agents are structured so that there is goal congruence in maintaining a robust credit risk management system.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital Commitments

At 31 March 2012, outstanding Capital Commitment not provided for in the financial statements were as follows:

|  | The Group |          |
|--|-----------|----------|
|  | 2012      | 2011     |
|  | HK\$'000  | HK\$'000 |
| Contracted for                                 |           |          |
| — acquisition of property, plant and equipment | 65,921    | 7,647    |

Funding for capital commitments is expected to come from the Group's internal resources and bank borrowings.

The Company had no capital commitment as at 31 March 2012 (2011: Nil).

### Charge on Group assets

As at 31 March 2012, bank loans amounting to approximately HK\$15,250,000 (2011: HK\$20,250,000) were secured by the investment property (2011: leasedhold land and buildings) of the Group having a net book value approximately HK\$29,000,000 (2011: HK\$6,719,000). In additions, bank loans amounting to HK\$97,821,000 (2011: HK\$77,755,000) were secured by the Group's pledged bank deposits amounting HK\$90,008,000 (2011: HK\$76,455,000). The bank loans amounted to approximately HK\$127,000,000 (2011: Nil) were secured by the Group's treasury products amounting HK\$141,427,000 (2011: Nil).

### Contingent Liabilities

As at 31 March 2012, the Group has issued corporate guarantees to banks amounting to approximately HK\$150,323,000 with respect to bank borrowings of the associates of the Group. As at 31 March 2012, the outstanding balances of the bank borrowings were HK\$33,323,000.

The Group was not liable to any material legal proceedings of which provision for contingent liabilities was required.





## DIRECTORS' REPORT

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2012.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 21 to the financial statements.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2012 and the state of the Group's affairs as at that date are set out in the financial statements on pages 23 to 105.

### SHARE CAPITAL

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

### RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK\$70,620,000 (2011: approximately HK\$255,663,000) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity respectively.

### TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

### PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment of the Group for the year ended 31 March 2012 are set out in note 17 to the financial statements.

### EMPLOYMENT REMUNERATION POLICY

As at 31 March 2012, the Group had approximately 25 employees. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant options to eligible employees under its share option scheme.





## DIRECTORS' REPORT

### DIRECTORS

The Directors of the Company during the year were:

#### Executive Directors

Lau Yau Bor (*the Chairman*)

Lau Kin Tung (*the Vice Chairman*)

Chan Hing Ming (*the Chief Executive Officer*)

#### Non-Executive Directors

Chiu Wai Piu

Choy Ping Sheung

Fung Tze Wa

Pursuant to the Bye-law 87(1) of the Company, each director is required to retire by rotation once every three years and that one-third (or the number nearest to one-third but not less than one-third) of the directors shall retire from office by rotation at each annual general meeting of the Company. Accordingly, Mr. Lau Kin Tung and Mr. Choy Ping Sheung will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

### DIRECTOR'S SERVICE CONTRACTS

Mr. Lau Yau Bor, Mr. Lau Kin Tung and Madam Chan Hing Ming have entered into service contracts with the Company respectively for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year.

Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa have been appointed as an independent non-executive director since 1 September 2008, 1 September 2003 and 1 September 2004, respectively, and shall continue thereafter for successive terms of one year.

Other than as disclosed above, none of the directors has entered into a service contract with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected Transactions", no contract of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors and chief executive of the Company who held office as at 31 March 2012 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

#### Interests in issued Shares

| Name of Director | Personal interests     | Family interests        | Corporate interests     | Total number of Shares held | % of total issued Shares |
|------------------|------------------------|-------------------------|-------------------------|-----------------------------|--------------------------|
| Lau Yau Bor      | 95,832,000<br>(Note 1) | 116,712,000<br>(Note 2) | 840,000,000<br>(Note 4) | 1,052,544,000               | 65.38%                   |
| Lau Kin Tung     | —                      | —                       | 105,000,000<br>(Note 5) | 105,000,000                 | 6.52%                    |
| Chan Hing Ming   | 41,712,000<br>(Note 1) | 935,832,000<br>(Note 3) | 75,000,000<br>(Note 6)  | 1,052,544,000               | 65.38%                   |

#### Notes:

1. The Shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.
2. 75,000,000 Shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor, 41,712,000 Shares are held by Chan Hing Ming as beneficial owner.
3. 840,000,000 Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming, 95,832,000 Shares are held by Lau Yau Bor as beneficial owner.
4. These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
5. These Shares are held by WHYS Holding Co. Ltd., the entire issued share capital of which is held by Lau Kin Tung.
6. These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

#### Interests in underlying Shares

The directors and chief executives of the Company have been granted options under the Company's share option scheme (the "Share Option Scheme"), details of which are set out in the section "Share Option Scheme" below.

Apart from the foregoing, none of the directors and chief executives of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

# DIRECTORS' REPORT

## SHARE OPTION SCHEME

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. The exercise price of option is the highest of the nominal value of the ordinary share of HK\$0.01 each in the share capital of the Company ("Shares"), the closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the Share Option Scheme is 160,500,000, which represented 10% of the issued share capital of the Company as at 26 August 2008, the date of approval of the refreshment of the maximum number of the Shares, which may be issued upon the exercise of all the share options to be granted under the Share Option Scheme and such other schemes of the Company which initially shall not in aggregate exceed 10% of the Shares in issue at the date of the approval of the Share Option Scheme by the Shareholders and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of refreshed limit by shareholders of the Company.

Details of the share options granted by the Company pursuant to the Scheme and the options outstanding as at 31 March 2012 were as follows:

|                            | Date of grant | Exercisable period   | Balance at 01/04/11<br><i>Number of options</i> | Granted during the year<br><i>Number of options</i> | Exercised during the year<br><i>Number of options</i> | Cancelled during the year<br><i>Number of options</i> | Balance at 31/03/12<br><i>Number of options</i> | Exercise price<br><i>HK\$</i> | Exercise date |
|----------------------------|---------------|----------------------|---|---|---|---|---|-------------------------------|---------------|
| <b>Executive director</b>  |               |                      |   |   |   |   |   |                               |               |
| Lau Kin Tung               | 14/04/08      | 14/04/08 to 13/04/13 | 15,000,000                                      | —   | —   | —   | 15,000,000                                      | 0.18                          | —             |
|                            | 19/10/10      | 19/10/10 to 18/10/15 | 15,000,000                                      | —   | —   | —   | 15,000,000                                      | 0.58                          | —             |
| <b>Employee/Consultant</b> |               |                      |   |   |   |   |   |                               |               |
| <i>(note)</i>              |               |                      |   |   |   |   |   |                               |               |
| In aggregate               | 17/02/11      | 17/02/11 to 16/02/16 | 3,000,000                                       | —   | —   | —   | 3,000,000                                       | 0.52                          | —             |
|                            |               |                      | 33,000,000                                      | —   | —   | —   | 33,000,000                                      |                               |               |

*Note:*

These options were granted to an employee on 17 February 2011. That employee subsequently became a Consultant of the Group in June 2011.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2012 the Company had been notified by the following person (other than the directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as at 31 March 2012 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

#### Interests in issued Shares

| Name of substantial shareholders | Capacity         | Total Interests | Percentage of total issued shares |
|----------------------------------|------------------|-----------------|-----------------------------------|
| LAUs Holdings Co. Ltd.           | Beneficial owner | 840,000,000     | 52.17                             |
| WHYS Holding Co. Ltd.            | Beneficial owner | 105,000,000     | 6.52                              |

### CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 39 to the financial statements also fell under the definition of "connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

#### Continuing Connected Transactions

##### (1) Tenancy Agreements

Jiwa International Limited ("Jiwa International"), a wholly-owned subsidiary of the Company, entered into the Albany Tenancy Agreement and the Lippo Tenancy Agreement with Jiwa Investment Limited ("Jiwa Investment"). Jiwa International also entered into the Robinson Tenancy Agreement with Mr. Lau Yau Bor ("Mr. Lau"). Jiwa Investment is wholly owned by Mr. Lau and his associates, Mr. Lau is a director and a substantial shareholder of the Company. Mr. Lau and Jiwa Investment are therefore connected persons of the Company under the Listing Rules. Content of the agreements is summarised below:

##### (i) The Albany Tenancy Agreement

|                   |   |  |
|-------------------|---|--|
| Date of agreement | : | 1 September 2010   |
| Landlord          | : | Jiwa Investment  |
| Tenant            | : | Jiwa International   |
| Premises          | : | Apartment A1 (also known as Apartment C), 21st Floor and Car Park No. 21 on 4th Floor (Carpark Level 5), The Albany, No. 1 Albany Road, Hong Kong with a total gross floor area of approximately 201 square metres |
| Term              | : | two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive)   |
| Annual rental     | : | HK\$1,200,000 (HK\$100,000 per month)  |
| Payment method    | : | Payable monthly in advance on the first day of each calendar month by cash   |

## DIRECTORS' REPORT

(ii) *The Robinson Tenancy Agreement*

|                   |   |  |
|-------------------|---|--|
| Date of agreement | : | 1 September 2010   |
| Landlord          | : | Mr. Lau  |
| Tenant            | : | Jiwa International   |
| Premises          | : | Apartment A on 22nd Floor and Car Parking Space No. 7 on 4th Floor of Regal Crest, No. 9 Robinson Road, Hong Kong with a gross floor area of approximately 215 square metres |
| Term              | : | two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive)   |
| Annual rental     | : | HK\$720,000 (HK\$60,000 per month)   |
| Payment method    | : | Payable monthly in advance on the first day of each calendar month by cash   |

(iii) *The Lippo Tenancy Agreement*

|                   |   |   |
|-------------------|---|---|
| Date of agreement | : | 1 September 2010  |
| Landlord          | : | Jiwa Investment   |
| Tenant            | : | Jiwa International  |
| Premises          | : | Office 4, 29th Floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong with a total gross floor area of approximately 150 square metres |
| Term              | : | two years commencing from 1 September 2010 to 31 August 2012 (both days inclusive)  |
| Annual rental     | : | HK\$840,000 (HK\$70,000 per month)  |
| Payment method    | : | Payable monthly in advance on the first day of each calendar month by cash  |

The aggregate rental under the Albany Tenancy Agreement, the Robinson Tenancy Agreement and the Lippo Tenancy Agreement, will be subject to the following annual cap and shall not exceed:

- (a) HK\$2,715,000 for the year ending 31 March 2011;
- (b) HK\$2,760,000 for the year ending 31 March 2012; and
- (c) HK\$1,150,000 for the year ending 31 March 2013.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms; or, if there is no available comparison, on terms that are no less favorable than terms available to or from independent third parties; and
- (c) in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 11 to 13 of the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### Major Transactions

Provision of the loan guarantee  
(as referred to the announcement dated 19 March 2012)

On 19 March 2012, the Company (as the guarantor for the Loan), Kunming Jida Pharmaceutical Company Limited (as the Loan Borrower) and the Nanyang Bank (as the Lender) entered into the loan agreement in relation to the loan in a sum of HK\$117.0 million made by Nanyang Bank to Kunming Jida and its subsidiaries ("Jida Group"), pursuant to which the Company entered into the Loan Guarantee in favour of Nanyang Bank to secure 100% of the principal amount and interest payable under the Loan granted to Kunming Jida under the Loan Agreement.

Provision of the facility guarantee  
(as referred to the announcement dated 19 March 2012)

At the same time, it is expected that the Company (as a guarantor for the Banking Facilities), Jiwa International Limited (a wholly owned subsidiaries of the Company and as one of the Facility Borrowers), the Jida Group (as one of the Facility Borrowers only) and the seven commercial banks (collectively, referred as Facility Providers) will enter and had entered into each of the seven Facility Agreements (as stipulated in the announcement), pursuant to which the Company will also enter into the Facility Guarantees in favour of each of the Facility Providers to secure 100% of the aggregate facility amount and the interest payable from time to time up to the maximum extent of HK\$170.0 million under the Banking Facilities granted to the Facility Borrowers, comprising the Group together with Jida Group, under the Facility Agreements.

### Post Balance Sheet Event

Jiwa International has entered into a Sale and Purchase Agreement with Haywoods Limited for purchase of an office unit located at Admiralty for a consideration of HK\$20,070,000 on 2 May 2012.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.



## DIRECTORS' REPORT

### FIXED ASSETS

During the year, the Group acquired machineries, furniture, fixtures and equipment for approximately HK1,543,000, and the Group did not acquire properties. Details of these acquisitions and other movements in fixed assets are set out in note 17 to the financial statements.

### BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2012 are set out in note 31 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

|                                     | Percentage of the Group's total |          |
|-------------------------------------|---------------------------------|----------|
|                                     | Sales                           | Purchase |
| The largest customer                | 73%                             |          |
| Five largest customers in aggregate | 100%                            |          |
| The largest supplier                |                                 | 42%      |
| Five largest suppliers in aggregate |                                 | 88%      |

Other than as disclosed at note 6 to the financial statement, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

# The second largest supplier for the year ended 31 March 2012, who contributed 17% of the Group's total purchase for the year is an associate of the Group.

### FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106 of the annual report.

### RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 2.23 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in respect of the shares of the Company under the Company's Bye-Laws, or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.





## DIRECTORS' REPORT

### SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors of the Company, the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares.

### AUDITOR

The financial statements for the year ended 31 March 2010 were audited by Grant Thornton Hong Kong ("GTHK"), now known as JBPB&Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned with effect from 29 March 2011 and BDO was appointed as auditor of the Company. The financial statements for the financial years ended 31 March 2011 and 2012 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

### ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of the Company will be held at 10:00 a.m. on 6 July 2012 (Friday) at Room 3, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong and a notice of annual general meeting will be published and dispatched in due course.

### CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 13 July 2012 (Friday) to 17 July 2012 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 July 2012 (Thursday).

On behalf of the Board of Directors

**Lau Kin Tung**

*Vice Chairman and Executive Director*

Hong Kong, 24 May 2012



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance practices are crucial to the effective management of the Group. The Company is committed to the transparency, accountability and independence highlighted by the principles of the Code Provisions in accordance with the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the Listing Rules to protect the rights of shareholders and stakeholders, enhance shareholder value and ensure proper management of corporate assets.

The Board is of the opinion that during the financial year ended 31 March 2012, the Company had applied the CG Code as set out in the Listing Rules.

## DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. On specific enquiries made, all directors have confirmed that, for the year ended 31 March 2012, they have complied with the required standard set out in the Model Code and the Own Code.

## BOARD OF DIRECTORS

### Composition of the Board

The Composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

During the Period, the Board consists of three executive directors and three independent non-executive directors with a variety of experience in management, accounting and finance; their brief biographical particulars and their relationship among the Board are set out on page 20 of this annual report.

Four regular board meetings were held for the year ended 31 March 2012 and the attendance was as follows:

| Board of Directors                                | Attendance |
|---|------------|
| <i>Executive Directors</i>                        |            |
| Lau Yau Bor ( <i>Chairman</i> )                   | 4/4        |
| Lau Kin Tung ( <i>Vice Chairman</i> )             | 4/4        |
| Chan Hing Ming ( <i>Chief Executive Officer</i> ) | 4/4        |
| <i>Non-Executive Directors</i>                    |            |
| Chiu Wai Piu                                      | 4/4        |
| Choy Ping Sheung                                  | 4/4        |
| Fung Tze Wa                                       | 4/4        |

The Company has appointed sufficient numbers of Independent Non-Executive Directors in accordance with the Listing Rules, including those with accounting and finance expertise. They have dedicatedly provided the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the company and its subsidiaries.



## CORPORATE GOVERNANCE REPORT

The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent in accordance with independence guidelines set out in the Listing Rules.

### **The Operation of the Board of Directors**

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it.

Three board committees, namely, the audit committee, remuneration committee and nomination committee, have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to management of the Company and its subsidiaries.

The board had met four times during the Period to discuss and formulate overall strategies for the Group, review the financial performance, as well as other significant matters when board decisions were required.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Mr. Lau Yau Bor is the Chairman of the Company and is mainly responsible for the management of the Board. Madam Chan Hing Ming is the Chief Executive Officer of the Company and is delegated with the authority and is responsible for day-to-day management of the Group's business, and the implementation of the approved strategies in achieving the overall business objectives.

### **NON-EXECUTIVE DIRECTORS**

Each of the Non-Executive Directors has entered into a service contract with the Company for a term of one year or till retirement by rotation in accordance with the Bye-laws of the Company, whichever is earlier.

### **REMUNERATION OF DIRECTORS**

The Company established a Remuneration Committee on 1 September 2005 with written terms of reference as disclosed on the Company's website. The Remuneration Committee is responsible for formulating and recommending remuneration policy to the board, as well as reviewing and making recommendations on the Group's share option scheme, bonus structure, provident fund and other compensation-related issues. The committee shall consult with the Chairman on its proposals and recommendations, and has access to professional advice if deemed necessary.

During the year under review, the members of Remuneration Committee are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all are independent non-executive directors. Mr. Choy Ping Sheung is the chairman of the remuneration committee.

## CORPORATE GOVERNANCE REPORT

During the Period, the Remuneration Committee had held 1 meeting. Attendance of each individual member was as follows:

| Committee Member | Meeting Attended/Held |
|------------------|-----------------------|
| Choy Ping Sheung | 1/1                   |
| Chiu Wai Piu     | 1/1                   |
| Fung Tze Wa      | 1/1                   |

The emolument policies of the directors of the Company were reviewed by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details on the emolument payable to the Directors and the Company's share option scheme are disclosed in notes 16 and 37 to the financial statements respectively.

### NOMINATION OF DIRECTORS

The Company established a Nomination Committee on 1 September 2005 with written terms of reference as disclosed on the Company's website. The Nomination Committee is responsible for reviewing and making recommendations to the board on relevant matters relating to the appointment, re-appointment and succession planning for the board members. The Nomination Committee has the responsibility to consider and access candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group.

During the Period, the members of Nomination Committee are Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all are Independent Non-executive Directors. Mr. Chiu Wai Piu is the chairman of the nomination committee.

During the year, the Nomination Committee had held 1 meeting. Attendance of each individual member was as follows:

| Committee Member | Meeting Attended/Held |
|------------------|-----------------------|
| Chiu Wai Piu     | 1/1                   |
| Choy Ping Sheung | 1/1                   |
| Fung Tze Wa      | 1/1                   |

### AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the Period, the Group is required to pay to the auditor, BDO Limited the following remuneration:

| Nature of services | HK\$'000 |
|--------------------|----------|
| Audit services     | 600      |
| Non-audit services | 310      |



## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

The Audit Committee members comprise of Mr. Chiu Wai Piu, Mr. Choy Ping Sheung and Mr. Fung Tze Wa, all are independent non-executive directors. Mr. Fung Tze Wa is the Chairman of the Audit Committee who has appropriate professional qualifications and accounting expertise. No member of this committee is a member of the former or external auditors of the Company.

The audit committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee, which complies with the provisions of the CG Code. The terms of reference of the audit committee are available on the Company's website.

During the year, the Audit Committee had held 2 meetings. Attendance of each individual member was as follows:

| Committee Member | Meeting Attended/Held |
|------------------|-----------------------|
| Fung Tze Wa      | 2/2                   |
| Chiu Wai Piu     | 2/2                   |
| Choy Ping Sheung | 2/2                   |

### RESPONSIBILITY ON FINANCIAL REPORTING

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company.

The board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to the statutory requirements. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibilities of BDO Limited, the Company's auditor, are stated in the Independent Auditor's Report on pages 21 to 22 of the Annual Report.

### INTERNAL CONTROL

The Board had conducted a review of the effectiveness of the system of internal control of the Group which covered all material controls, including financial, operational and compliance controls and risk management functions.

### COMMUNICATION WITH SHAREHOLDERS

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintains close communications with various institutional investors, financial analysts and financial media. Investors are welcome to share their views with the Board by sending enquiries to [enquiry-genl-hk@jiwa.com.hk](mailto:enquiry-genl-hk@jiwa.com.hk).



## BIOGRAPHY OF DIRECTORS

### EXECUTIVE DIRECTORS

**Lau Yau Bor**, aged 74, is the founder, Chairman and Executive Director of the Group. Mr. Lau is responsible for the business development direction and corporate strategy of the Group. Mr. Lau has over 30 years of experience in corporate management. Mr. Lau is an Honorary Doctor of Management of Lincoln University and a Fellow of the Canadian Chartered Institute of Business Administration.

Mr. Lau is also the council member of China Federation of Chinese Entrepreneurs, council member of China Enterprise Directors Association, vice chairman of Yunnan Overseas Chinese Chamber of Commerce and Entrepreneurs, founding member of China Overseas Chinese Entrepreneurs Association, deputy chairman of Yunnan Association of Enterprises with Foreign Investment, consultant of Yunnan Federation of Returned Overseas Chinese, consultant of Yunnan Association for Promotion of Overseas Economic Cooperation, council member of Yunnan Overseas Friendship Association, consultant of Yunnan Overseas Exchange Association, honorary professor of Kunming Medical University and council member of Kunming Overseas Friendship Association.

**Lau Kin Tung**, aged 42, is the Vice-Chairman and Executive Director of the Group. Mr. Lau joined the Group in June 1992. Since 1993, Mr. Lau was involved in the management of Jida Group. Mr. Lau holds a Bachelor of Business Administration Degree from the University of Hong Kong (1992), a Master of Business Administration Degree from the University of Manchester (2002), and a Bachelor of Science Degree in Pharmaceutical Studies from the University of Sunderland (2003). Mr. Lau is the son of Mr. Lau Yau Bor, the Chairman of the Group and Madam Chan Hing Ming, a Director. Mr. Lau resigned as Chief Executive Officer on 24 June 2011.

Mr. Lau is also a standing member of Yunnan Youth Federation, council member of Yunnan Overseas Friendship Association, member of Yunnan Federation of Returned Overseas Chinese, council member of Yunnan Association for Promotion of Overseas Economic Cooperation, council member of Yunnan Overseas Exchange Association and contact expert of Yunnan Province.

**Chan Hing Ming**, aged 71, is the Executive Director, Chief Executive Officer and one of the founders of the Group. Madam Chan assisted in founding the Group and has been responsible for the operation and financial management of the Group. Madam Chan has over 30 years of experience in corporate management. Madam Chan is the wife of Mr. Lau Yau Bor, the Chairman of the Group. Madam Chan was appointed as Chief Executive Officer on 24 June 2011.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Chiu Wai Piu**, aged 65, is the Independent Non-executive Director of the Company. Mr. Chiu is an experienced journalist with over 40 years' experience in journalism. He has been a reporter, editor, main news assignment editor, local news assignment editor, assistant editor-in-chief and editorial writer in newspapers and a senior research officer in "One Country Two Systems Research Institute". Mr. Chiu is the Director (General) of the "Hong Kong Federation of Journalists". He is also an independent non-executive director of Mobile Telecom Network (Holdings) Limited, the shares of which are listed on the Stock Exchange of Hong Kong.

**Choy Ping Sheung**, aged 64, is the Independent Non-executive Director of the Company. Mr. Choy had held management positions in Nanyang Commercial Bank and the China & South Sea Bank (Hong Kong Branch). Mr. Choy obtained a Higher Certificate in Business Studies (Banking) from the Hong Kong Polytechnic in 1986.

**Fung Tze Wa**, aged 55, is the Independent Non-executive Director of the Company. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has more than 27 years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a Master Degree in Professional Accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. He is also the independent non-executive director of China Haidian Holdings Limited, the shares of which are listed on the Stock Exchange of Hong Kong.

# INDEPENDENT AUDITOR'S REPORT



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## To the shareholders of Jiwa Bio-Pharm Holdings Limited

積華生物醫藥控股有限公司

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Jiwa Bio-Pharm Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 23 to 105, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

BDO Limited  
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.





## INDEPENDENT AUDITOR'S REPORT

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

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

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **BDO Limited**

*Certified Public Accountants*

**Jonathan Russell Leong**

*Practising Certificate Number: P03246*

Hong Kong, 24 May 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

|  | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Continuing operations</b>   |       |                  |                  |
| Revenue  | 5     | 203,787          | 175,309          |
| Cost of sales  |       | (168,472)        | (127,095)        |
| Gross profit   |       | 35,315           | 48,214           |
| Other income   | 7     | 16,248           | 1,730            |
| Selling expenses   |       | (1,065)          | (1,369)          |
| Administrative expenses  |       | (18,573)         | (23,701)         |
| Other operating expenses   |       | (1,334)          | (2,649)          |
| Other gains/(losses), net  |       |                  |                  |
| Gain on derecognition of Profit guarantee  | 33(a) | 3,289            | —                |
| Fair value gain on Put option  | 33(b) | 24,252           | —                |
| Impairment of other receivables  | 9(b)  | (20,211)         | —                |
| <b>Operating profit</b>  |       | 37,921           | 22,225           |
| Finance costs  | 8     | (3,404)          | (1,075)          |
| Share of results of associates   | 22    | 40,737           | (94)             |
| <b>Profit before income tax</b>  | 9     | 75,254           | 21,056           |
| Income tax expense   | 10    | (4,636)          | (1,839)          |
| <b>Profit for the year from continuing operations</b>  |       | 70,618           | 19,217           |
| <b>Discontinued operations</b>   |       |                  |                  |
| Profit for the year from discontinued operations   | 11    | —                | 255,651          |
| <b>Profit for the year</b>   |       | 70,618           | 274,868          |
| <b>Other comprehensive income/(loss), including reclassification adjustment</b>                              |       |                  |                  |
| Fair value adjustment upon transfer of owner-occupied properties to investment property                      | 17    | 22,353           | —                |
| Release of translation reserve upon disposal of subsidiaries   |       | —                | (32,228)         |
| Exchange gain on translation of financial statements of foreign operations                                   |       | 862              | 7,242            |
| <b>Other comprehensive income/(loss) for the year, including reclassification adjustments and net of tax</b> |       | 23,215           | (24,986)         |
| <b>Total comprehensive income for the year</b>   |       | 93,833           | 249,882          |
| <b>Profit for the year attributable to:</b>  |       |                  |                  |
| Owners of the Company  |       | 70,620           | 255,663          |
| Non-controlling interests  |       | (2)              | 19,205           |
|  |       | 70,618           | 274,868          |
| <b>Total comprehensive income attributable to:</b>   |       |                  |                  |
| Owners of the Company  |       | 93,835           | 237,790          |
| Non-controlling interests  |       | (2)              | 12,092           |
|  |       | 93,833           | 249,882          |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

|  | Notes | 2012 | 2011  |
|--|-------|------|-------|
| <b>Earnings per share from continuing operations attributable to owners of the Company during the year</b>               | 14    |      |       |
| Basic (HK cents)   |       | 4.39 | 1.27  |
| Diluted (HK cents)   |       | 4.37 | 1.26  |
| <b>Earnings per share from discontinued operations attributable to owners of the Company during the year</b>             | 14    |      |       |
| Basic (HK cents)   |       | —    | 14.61 |
| Diluted (HK cents)   |       | —    | 14.52 |
| <b>Earnings per share attributable to owners of the Company during the year – continuing and discontinued operations</b> | 14    |      |       |
| Basic (HK cents)   |       | 4.39 | 15.88 |
| Diluted (HK cents)   |       | 4.37 | 15.78 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

|  | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>ASSETS AND LIABILITIES</b>                          |       |                  |                  |
| <b>Non-current assets</b>                              |       |                  |                  |
| Property, plant and equipment                          | 17    | 2,652            | 8,349            |
| Investment property                                    | 19    | 29,000           | —                |
| Interests in associates                                | 22    | 408,464          | 400,999          |
| Intangible assets                                      | 23    | 29,994           | 11,765           |
| Deposit for land use right                             | 26    | 14,326           | —                |
|  |       | <b>484,436</b>   | 421,113          |
| <b>Current assets</b>                                  |       |                  |                  |
| Inventories  | 24    | 586              | 13,980           |
| Accounts receivable                                    | 25    | 59,126           | 71,431           |
| Deposits, prepayments and other receivables            | 26    | 25,100           | 155,458          |
| Amounts due from associates                            | 22    | 50,011           | 146,172          |
| Derivative financial assets                            | 27    | 4,019            | 1,291            |
| Treasury products at fair value through profit or loss | 28    | 161,032          | —                |
| Tax recoverable  |       | 103              | —                |
| Pledged bank deposits                                  | 29    | 90,008           | 76,455           |
| Cash and cash equivalents                              | 29    | 58,532           | 9,506            |
|  |       | <b>448,517</b>   | 474,293          |
| <b>Non-current assets held for sale</b>                | 30    | —                | 9,692            |
| <b>Total current assets</b>                            |       | <b>448,517</b>   | 483,985          |
| <b>Current liabilities</b>                             |       |                  |                  |
| Bank borrowings  | 31    | 256,071          | 135,505          |
| Accounts and bills payable                             | 32    | 4,992            | 20,256           |
| Amount due to an associate                             | 22    | —                | 3,000            |
| Accrued expenses and other payables                    |       | 5,442            | 15,257           |
| Tax payable  |       | 6,969            | 16,892           |
| Derivative financial liabilities                       | 33    | 53,704           | 106,838          |
|  |       | <b>327,178</b>   | 297,748          |
| <b>Net current assets</b>                              |       | <b>121,339</b>   | 186,237          |
| <b>Total assets less current liabilities</b>           |       | <b>605,775</b>   | 607,350          |
| <b>Non-current liabilities</b>                         |       |                  |                  |
| Deferred tax liabilities                               | 34    | 1,192            | —                |
| <b>Net assets</b>                                      |       | <b>604,583</b>   | 607,350          |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

|   | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>EQUITY</b>                                       |       |                  |                  |
| Share capital                                       | 35    | 16,100           | 16,100           |
| Reserves  | 36    | 588,489          | 591,254          |
| <b>Equity attributable to owners of the Company</b> |       | <b>604,589</b>   | 607,354          |
| <b>Non-controlling interests</b>                    |       | <b>(6)</b>       | (4)              |
| <b>Total equity</b>                                 |       | <b>604,583</b>   | 607,350          |

**Lau Yau Bor**  
Director

**Lau Kin Tung**  
Director

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

|   | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>ASSETS AND LIABILITIES</b>                           |       |                  |                  |
| <b>Non-current assets</b>                               |       |                  |                  |
| Investments in subsidiaries                             | 21    | 82,380           | 82,380           |
| <b>Current assets</b>                                   |       |                  |                  |
| Amounts due from subsidiaries                           | 21    | 113,345          | 176,580          |
| Prepayments   |       | 4                | 4                |
| Tax recoverable   |       | 103              | —                |
| Cash and cash equivalents                               |       | 538              | 135              |
|   |       | <b>113,990</b>   | 176,719          |
| <b>Current liabilities</b>                              |       |                  |                  |
| Accrued expenses and other payables                     |       | 3                | 3                |
| <b>Net current assets</b>                               |       | <b>113,987</b>   | 176,716          |
| <b>Net assets/Total assets less current liabilities</b> |       | <b>196,367</b>   | 259,096          |
| <b>EQUITY</b>   |       |                  |                  |
| Share capital   | 35    | 16,100           | 16,100           |
| Reserves  | 36    | 180,267          | 242,996          |
| <b>Total equity</b>                                     |       | <b>196,367</b>   | 259,096          |

**Lau Yau Bor**  
Director

**Lau Kin Tung**  
Director

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

|  | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Cash flows from operating activities</b>                                    |       |                  |                  |
| Profit before income tax   |       |                  |                  |
| Continuing operations  |       | 75,254           | 21,056           |
| Discontinued operations  |       | —                | 283,113          |
|  |       | <b>75,254</b>    | <b>304,169</b>   |
| Adjustments for:   |       |                  |                  |
| Interest income  |       | (2,785)          | (388)            |
| Interest expense   |       | 3,404            | 5,048            |
| Depreciation of property, plant and equipment                                  |       | 663              | 15,886           |
| Share-based employee compensation  |       | —                | 4,551            |
| Amortisation of land use rights  |       | —                | 80               |
| Amortisation of intangible assets  |       | —                | 612              |
| (Gain)/Loss on disposals of property, plant and equipment                      |       | (73)             | 12               |
| Gain on disposals of subsidiaries  | 41    | —                | (209,150)        |
| Fair value gain on derivative financial instruments not qualify as hedges, net | 27    | (4,019)          | (1,291)          |
| Gain on derecognition of Profit guarantee                                      |       | (3,289)          | —                |
| Fair value gain on Put option  |       | (24,252)         | —                |
| Fair value loss on treasury products at fair value through profit or loss      |       | 428              | —                |
| Impairment of other receivables  |       | 20,211           | —                |
| Write off of inventories   |       | 5,834            | —                |
| Share of results of associates   |       | (40,737)         | 94               |
| <b>Operating profit before changes in working capital</b>                      |       | <b>30,639</b>    | <b>119,623</b>   |
| Decrease in inventories  |       | 7,560            | 18,730           |
| Decrease/(Increase) in accounts receivable                                     |       | 15,714           | (25,040)         |
| Decrease/(Increase) in deposits, prepayments and other receivables             |       | 2,654            | (128,580)        |
| Decrease in amounts due from associates, net                                   |       | 90,609           | —                |
| Decrease in amount due from a related company                                  |       | —                | 78,336           |
| Decrease in accounts and bills payable   |       | (14,496)         | (37,565)         |
| (Decrease)/Increase in accrued expenses and other payables                     |       | (9,999)          | 286,878          |
| <b>Net cash generated from operations</b>                                      |       | <b>122,681</b>   | <b>312,382</b>   |
| Hong Kong profits tax paid   |       | (2,905)          | (1,265)          |
| Taxation outside Hong Kong paid  |       | —                | (17,708)         |
| Taxation outside Hong Kong refunded  |       | —                | 1,705            |
| <b>Net cash generated from operating activities</b>                            |       | <b>119,776</b>   | <b>295,114</b>   |



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

|   |       | 2012            | 2011             |
|---|-------|-----------------|------------------|
|   | Notes | HK\$'000        | HK\$'000         |
| <b>Cash flows from investing activities</b>                               |       |                 |                  |
| Payments for purchase of property, plant and equipment                    |       | (1,543)         | (6,559)          |
| Proceeds from disposals of property, plant and equipment                  |       | 73              | —                |
| Payments for construction in progress                                     |       | —               | (29,476)         |
| Payments for acquisition of intangible assets                             |       | (18,229)        | (12,141)         |
| Proceeds received from disposals of subsidiaries                          |       | 115,035         | —                |
| Net cash outflow from disposal of subsidiaries                            | 41    | —               | (299,260)        |
| Payment to acquire treasury products at fair value through profit or loss |       | (161,460)       | —                |
| Proceeds received from disposal of non-current assets held for sale       | 22(a) | 2,000           | —                |
| Deposit for land use rights   | 26(c) | (14,326)        | —                |
| Advances to associates  |       | —               | 38,024           |
| Increase in pledged bank deposits   |       | (16,929)        | (76,455)         |
| Interest received   |       | 2,785           | 388              |
| Settlement of derivative financial assets                                 |       | 1,291           | —                |
| <b>Net cash used in investing activities</b>                              |       | <b>(91,303)</b> | <b>(385,479)</b> |
| <b>Cash flows from financing activities</b>                               |       |                 |                  |
| Proceeds from bank borrowings   |       | 240,321         | 173,305          |
| Repayment of bank borrowings  |       | (119,755)       | (73,615)         |
| Interest paid   |       | (3,404)         | (5,048)          |
| Dividends paid to owners of the Company                                   | 13(b) | (96,600)        | (20,930)         |
| Dividends paid to non-controlling interests                               |       | —               | (5,294)          |
| <b>Net cash generated from financing activities</b>                       |       | <b>20,562</b>   | <b>68,418</b>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b>               |       | <b>49,035</b>   | <b>(21,947)</b>  |
| Translation differences   |       | (9)             | (3,350)          |
| Cash and cash equivalents at the beginning of the year                    |       | 9,506           | 34,803           |
| <b>Cash and cash equivalents at the end of the year</b>                   | 29    | <b>58,532</b>   | <b>9,506</b>     |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

|  | Equity attributable to owners of the Company |                |                      |                       |                            |                      |                            |                  |                       |                          |                   |          | Non-controlling interests | Total equity |
|--|--|----------------|----------------------|-----------------------|----------------------------|----------------------|----------------------------|------------------|-----------------------|--------------------------|-------------------|----------|---------------------------|--------------|
|  | Share capital                                | Share premium* | Contributed surplus* | General reserve fund* | Enterprise expansion fund* | Translation reserve* | Asset revaluation reserve* | Capital reserve* | Share option reserve* | Proposed final dividend* | Retained profits* | Total    |                           |              |
|  | HK\$'000                                     | HK\$'000       | HK\$'000             | HK\$'000              | HK\$'000                   | HK\$'000             | HK\$'000                   | HK\$'000         | HK\$'000              | HK\$'000                 | HK\$'000          | HK\$'000 | HK\$'000                  | HK\$'000     |
| At 1 April 2010  | 16,100                                       | 56,097         | 2,000                | 12,722                | 57                         | 26,878               | (320)                      | 2,830            | 1,285                 | 20,930                   | 247,940           | 386,519  | 75,981                    | 462,500      |
| Dividend paid in respect of the previous year (note 13)                    | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | (20,930)                 | —                 | (20,930) | —                         | (20,930)     |
| Change in ownership interests in subsidiaries                              | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | (576)             | (576)    | 576                       | —            |
| Dividend relating to 2009  | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | —                 | —        | (5,294)                   | (5,294)      |
| Disposal of subsidiaries   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | —                 | —        | (83,359)                  | (83,359)     |
| Release of NCI's portion of translation reserve                            | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | 8,865             | 8,865    | (8,865)                   | —            |
| Grant of share options   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | 4,551                 | —                        | —                 | 4,551    | —                         | 4,551        |
| Transaction with owners  | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | 4,551                 | (20,930)                 | 8,289             | (8,090)  | (96,942)                  | (105,032)    |
| Profit for the year  | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | 255,663           | 255,663  | 19,205                    | 274,868      |
| Other comprehensive income   |  |                |                      |                       |                            |                      |                            |                  |                       |                          |                   |          |                           |              |
| Exchange gain on translation of financial statements of foreign operations | —  | —              | —                    | —                     | —                          | 5,490                | —                          | —                | —                     | —                        | —                 | 5,490    | 1,752                     | 7,242        |
| Release of translation reserve upon disposal of subsidiaries               | —  | —              | —                    | —                     | —                          | (32,228)             | —                          | —                | —                     | —                        | —                 | (32,228) | —                         | (32,228)     |
| Total comprehensive income for the year                                    | —  | —              | —                    | —                     | —                          | (26,738)             | —                          | —                | —                     | —                        | 255,663           | 228,925  | 20,957                    | 249,882      |
| Proposed final dividend (note 13)  | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | 96,600                   | (96,600)          | —        | —                         | —            |
| Disposals of subsidiaries  | —  | —              | —                    | (17,331)              | (57)                       | —                    | 320                        | (2,830)          | —                     | —                        | 19,898            | —        | —                         | —            |
| Appropriations to reserve  | —  | —              | —                    | 4,609                 | —                          | —                    | —                          | —                | —                     | —                        | (4,609)           | —        | —                         | —            |
| At 31 March 2011   | 16,100                                       | 56,097         | 2,000                | —                     | —                          | 140                  | —                          | —                | 5,836                 | 96,600                   | 430,581           | 607,354  | (4)                       | 607,350      |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

|   | Equity attributable to owners of the Company |                |                      |                       |                            |                      |                            |                  |                       |                          |                   |                | Non-controlling interests | Total equity   |
|---|--|----------------|----------------------|-----------------------|----------------------------|----------------------|----------------------------|------------------|-----------------------|--------------------------|-------------------|----------------|---------------------------|----------------|
|   | Share capital                                | Share premium* | Contributed surplus* | General reserve fund* | Enterprise expansion fund* | Translation reserve* | Asset revaluation reserve* | Capital reserve* | Share option reserve* | Proposed final dividend* | Retained profits* | Total          |                           |                |
|   | HK\$'000                                     | HK\$'000       | HK\$'000             | HK\$'000              | HK\$'000                   | HK\$'000             | HK\$'000                   | HK\$'000         | HK\$'000              | HK\$'000                 | HK\$'000          | HK\$'000       | HK\$'000                  | HK\$'000       |
| At 1 April 2011   | 16,100                                       | 56,097         | 2,000                | —                     | —                          | 140                  | —                          | —                | 5,836                 | 96,600                   | 430,581           | 607,354        | (4)                       | 607,350        |
| Dividend paid in respect of the previous year (note 13)   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | (96,600)                 | —                 | (96,600)       | —                         | (96,600)       |
| Transaction with owners   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | (96,600)                 | —                 | (96,600)       | —                         | (96,600)       |
| Profit for the year   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | —                        | 70,620            | 70,620         | (2)                       | 70,618         |
| <b>Other comprehensive income</b>   |  |                |                      |                       |                            |                      |                            |                  |                       |                          |                   |                |                           |                |
| Exchange gain on translation of financial statements of foreign operations                        | —  | —              | —                    | —                     | —                          | 862                  | —                          | —                | —                     | —                        | —                 | 862            | —                         | 862            |
| Fair value adjustment upon transfer of owner-occupied properties to investment property (note 17) | —  | —              | —                    | —                     | —                          | —                    | 22,353                     | —                | —                     | —                        | —                 | 22,353         | —                         | 22,353         |
| Total comprehensive income for the year   | —  | —              | —                    | —                     | —                          | 862                  | 22,353                     | —                | —                     | —                        | 70,620            | 93,835         | (2)                       | 93,833         |
| Proposed final dividend (note 13)   | —  | —              | —                    | —                     | —                          | —                    | —                          | —                | —                     | 33,810                   | (33,810)          | —              | —                         | —              |
| <b>At 31 March 2012</b>   | <b>16,100</b>                                | <b>56,097</b>  | <b>2,000</b>         | <b>—</b>              | <b>—</b>                   | <b>1,002</b>         | <b>22,353</b>              | <b>—</b>         | <b>5,836</b>          | <b>33,810</b>            | <b>467,391</b>    | <b>604,589</b> | <b>(6)</b>                | <b>604,583</b> |

\* the total of these equity accounts as at reporting date represent "Reserves" in the consolidated statement of financial position

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 1. GENERAL INFORMATION

Jiwa Bio-Pharm Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is 2904 & 2906, Tower One, Lippo Centre, 89 Queensway, Central, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is principally engaged in investment holding. In previous years, the principal activities of its subsidiaries include research, manufacturing, sales and trading of pharmaceutical and health care products. Following the completion of group reorganisation on 30 March 2011 as further detailed in notes 11 and 41, the primary businesses of its subsidiaries during the year include trading pharmaceutical and health care products, research and development of chemical and biological products and investment and treasury function.

The Company and its subsidiaries are collectively referred to as the “Group”.

The financial statements for the year ended 31 March 2012 were approved for issue by the board of directors on 24 May 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements on pages 23 to 105 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impact on the Group’s financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under historical cost convention except for investment property, treasury products at fair value through profit or loss, derivative financial assets and liabilities, which are stated at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### 2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 March each year. Inter-company transactions and balances between group companies together with unrealised profits on such transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Business combination and basis of consolidation *(Continued)*

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

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

### 2.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value-in-use and fair value less costs to sell.

### 2.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK\$. Assets and liabilities have been translated into HK\$ at the closing rates at the reporting date. Income and expenses have been converted into HK\$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

### 2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Construction in progress is stated at cost less impairment losses. The cost comprises construction costs including direct materials, labour, contractors' fees, interest expenses, overheads and cost of plant and machineries attributable to bringing the production facilities to its present condition.

When the construction or installation is completed, the relevant cost of construction in progress is transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost of property, plant and equipment less their residual values over their estimated useful lives, using straight-line method, as follows:

|                                   |                 |
|-----------------------------------|-----------------|
| Leasehold land                    | Over lease term |
| Buildings                         | 20-50 years     |
| Motor vehicles                    | 3 year          |
| Plant and machinery               | 5-15 years      |
| Furniture, fixtures and equipment | 5 years         |

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Land use rights

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.18. Amortisation is calculated on straight-line method over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land. Land use rights are amortised when these are occupied by the Group.

### 2.8 Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Rental income from investment property is accounted for as described in note 2.21.

When investment property carried at fair value is transferred to owner-occupied property, its deemed cost for subsequent accounting is its fair value at the date of change in use.

When a property occupied by the Group as an owner-occupied property becomes an investment property, such property is accounted for in accordance with the policy of property, plant and equipment (note 2.6) up to the date of change in use. Any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves.

### 2.9 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less impairment losses. For the purpose of impairment testing, goodwill arising from acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired (see note 2.22).

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

On subsequent disposal of a subsidiary, the attributable amount of any goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Intangible assets (other than goodwill) and research and development activities

#### ***Intangible assets (other than goodwill)***

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible asset with finite useful lives are carried at cost less accumulated amortisation and any impairment losses, if any. Amortisation is provided on straight-line method over their estimated useful lives. The amortisation expense is recognised in profit or loss. Intangible assets with indefinite useful lives are carried at cost less any impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described in note 2.22.

#### ***Research and development costs***

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible assets will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs included employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

### 2.11 Financial assets

The Group's accounting policies for financial assets other than investment in subsidiaries and associates are set out below.

Financial assets are classified into loans and receivables and financial assets at fair value through profit or loss. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Financial assets (Continued)

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

#### (i) **Financial assets at fair value through profit or loss**

They include financial assets held for trading; and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.21 to these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Financial assets (Continued)

#### (ii) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### *Impairment of financial assets*

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

#### *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Financial assets (Continued)

#### **Impairment of financial assets** (Continued)

For financial assets other than financial assets at fair value through profit or loss and accounts and bills receivable that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of accounts and bills receivable is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of accounts and bills receivable is remote, the amount considered irrecoverable is written off against accounts and bills receivable directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### 2.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate portion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

### 2.14 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designed as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

### 2.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.16 Financial liabilities

The Group's financial liabilities include bank borrowings, accounts and bills payables, accrued expenses and other payables, amount due to an associate and derivative financial liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.24).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

#### **Derivatives**

Derivatives including separated embedded derivatives are measured at fair value (see note 2.14)

#### **Bank borrowings**

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 Financial liabilities (Continued)

#### ***Accounts and bills payable, accrued expenses and other payables and amount due to an associate***

These are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method.

### 2.17 Financial guarantee issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within accrued expenses and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

### 2.18 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### **(i) Classification of assets leased to the Group**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risk and rewards of ownership to the Group are classified as operating leases.

#### **(ii) Operating lease charges as the lessee**

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss on straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Leases (Continued)

#### (iii) Assets leased out under operating leases as lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. 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 over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on straight-line method over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

### 2.19 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 2.20 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and the use by others of the Group's assets yielding interest and rental income, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risk and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Revenue recognition *(Continued)*

Rental income is recognised on straight-line method over the lease period of the tenancy.

Interest income is recognised on time-proportion basis using effective interest method.

Dividend is recognised when the right to receive payment is established.

### 2.22 Impairment of non-financial assets

Intangible assets, property, plant and equipment, land use rights, interests in associates and the Company's interests in subsidiaries are subject to impairment testing.

Intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.23 Employee benefits

##### ***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

##### ***Short-term employee benefits***

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

##### ***Share-based employee compensation***

All share-based payment arrangements granted are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.24 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

#### 2.25 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 Accounting for income taxes *(Continued)*

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 2.26 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker i.e. the most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.27 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (a) The party is a person or a close member of that person's family and that person,
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third party and the other party is an associate of the third party;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 3. ADOPTION OF NEW OR AMENDED HKFRSs

### (a) Adoption of new/revised HKFRSs — effective 1 April 2011

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2011:

|                     |                             |
|---------------------|-----------------------------|
| HKAS 24 (Revised)   | Related Party Disclosures   |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |

Except as explained below, the adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

#### ***HKAS 24 (Revised) Related Party Disclosures***

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with government entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standards. The Group has reassessed the identification of its related parties in accordance with the revised definition to include transactions with subsidiaries of the Group's associates and to exclude transactions with entities which are significantly influenced by members of the Group's key management personnel. The adoption of the revised standard has no impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39.

#### ***Improvements to HKFRSs 2010***

In May 2010, the HKICPA issued "Improvements to HKFRSs 2010" which sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

#### ***(i) HKFRS 3 Business Combinations***

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests at either fair value or the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS. The Group has amended its accounting policies for measuring non-controlling interests but the adoption of the amendment has had no impact on the Group's financial statements as no business combination took place during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### (a) Adoption of new/revised HKFRSs — effective 1 April 2011 (Continued)

#### **Improvements to HKFRSs 2010 (Continued)**

#### (ii) HKAS 1 Presentation of Financial Statements

The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to present the analysis of each component of other comprehensive income in the statement of changes in equity.

### (b) Early Adoption of Amendments to HKAS 12 Deferred Tax

#### **Amendments to HKAS 12 Deferred Tax — Recovery of Underlying Assets**

The Group has elected to early adopt the amendments to HKAS 12 Deferred Tax — Recovery of Underlying Asset, in respect of the recognition of deferred tax on investment property at fair value.

The amendments to HKAS 12 introduced an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. Currently HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of assets through use or sale. The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments are applied retrospectively.

As at 31 March 2012, the Group had investment property amounting to HK\$29,000,000 (2011: Nil), representing fair value in accordance with the Group's policy. The Group's investment property is situated in Hong Kong. In Hong Kong, land leases are generally expected to be renewed without a payment of a market-based premium and this expectation is reflected in the market price of properties in Hong Kong. In addition, the Group does not have the business model of holding investment property until the land leases expire. Given this, the directors of the Company assessed that the Group would not consume substantially all of the economic benefits embodied in the investment property over time. Consequently, as requirement of the amendments to HKAS 12, the Group measured the deferred tax relating to the Group's investment property as if this new policy had always been applied. There is no major tax consequence in Hong Kong of a sale of the investment property as there is currently no capital gain tax in Hong Kong.

The change in accounting policy has been applied retrospectively. However, as the Group did not have any investment property as at 31 March 2011, the adoption of the amendments to HKAS 12 has had no impact of the reported profit or loss, total comprehensive income, financial position and equity of the Group as at 31 March 2011. Accordingly, no additional statement of financial position as at 1 April 2010 is presented.

The adoption of the amendments to HKAS 12 has resulted in a reduction in the amount of deferred tax liabilities arising from the fair value change as follows:

|   | 2012<br>HK\$'000 |
|---|------------------|
| <b>Consolidated statement of financial position</b> |                  |
| Increase in equity — Asset revaluation reserve      | 4,204            |
| Decrease in deferred tax liabilities                | (4,204)          |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### (c) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

|                                |   |
|--------------------------------|---|
| Amendments to HKFRS 7          | Disclosures — Transfers of Financial Assets <sup>1</sup>  |
| Amendments to HKAS 1 (Revised) | Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income <sup>2</sup> |
| Amendments to HKAS 32          | Presentation — Offsetting Financial Assets and Financial Liabilities <sup>4</sup>                       |
| Amendments to HKFRS 7          | Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>3</sup>                        |
| HKAS 19 (2011)                 | Employee Benefits <sup>3</sup>  |
| HKAS 27 (2011)                 | Separate Financial Statements <sup>3</sup>  |
| HKAS 28 (2011)                 | Investments in Associates and Joint Ventures <sup>3</sup>   |
| HKFRS 9                        | Financial Instruments <sup>5</sup>  |
| HKFRS 10                       | Consolidated Financial Statements <sup>3</sup>  |
| HKFRS 11                       | Joint Arrangements <sup>3</sup>   |
| HKFRS 12                       | Disclosure of Interests in Other Entities <sup>3</sup>  |
| HKFRS 13                       | Fair Value Measurements <sup>3</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2015

#### **Amendments to HKFRS 7 Disclosure — Transfer of Financial Assets**

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

#### **Amendments to HKAS 1 (Revised) Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income**

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit or loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### (c) New/revised HKFRSs that have been issued but are not yet effective (Continued)

#### **HKFRS 9 Financial Instruments**

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues apply. The Group expects to adopt HKFRS 9 from 1 April 2015.

#### **HKFRS 10 Consolidated Financial Statements**

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### (c) New/revised HKFRSs that have been issued but are not yet effective (Continued)

#### **HKFRS 11 Joint Arrangements**

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for its interests in the joint operation's assets and liabilities.

#### **HKFRS 12 Disclosure of Interests in Other Entities**

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

#### **HKFRS 13 Fair Value Measurements**

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 *Financial Instruments: Disclosures*. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors of the Company are not yet in a position to quantify the effects on the Group's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) *Impairment of interests in associates, property, plant and equipment and intangible assets*

The Group assesses impairment at each reporting date by evaluating conditions that may lead to impairment of assets. Where an impairment condition exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are based on market condition existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

#### (ii) *Net realisable value of inventories*

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group evaluates ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowance may be required.

#### (iii) *Impairment on accounts and other receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of its debtors to make the required payments. These estimates are based on ageing of its accounts and other receivable balances, customers' credit-worthiness, and historical write-off experience. If the financial condition of its debtors deteriorates so that the actual impairment loss will be higher than expected, the Group will revise the basis of making the allowance and its future results would be affected.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Critical accounting estimates and assumptions *(Continued)*

#### **(iv) Fair value of Profit guarantee**

In March 2011, the Group disposed of its pharmaceutical manufacturing and distribution operations comprising the KJP Group, further details of which are set out in notes 11 and 41 and in the previous year's annual report. As part of the terms of the disposal, the Group gave an undertaking to the new investors in KJP Group that the profits of the disposed operations for the years ended 31 December 2010 and 2011 would not fall below a certain threshold (the "Profit guarantee"). This undertaking has been accounted for as a derivative financial liability and is stated at fair value in accordance with the accounting policies stated in notes 2.14 and 2.16 to the financial statements. The fair value of Profit guarantee is determined based on management's best estimates and is set out in note 33(a) to the financial statements. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from actual results.

#### **(v) Fair value of Put option**

In addition to the Profit guarantee noted above, the Group also gave the new investors in the KJP Group a put option ("Put option") to sell their equity interests in the KJP Group to the Group if the latter did not obtain a stock exchange listing within an agreed time frame. Further details are set out in note 33(b) to the financial statements. The Group's Put option was accounted as a derivative financial liability and stated at fair value in accordance with the accounting policies stated in notes 2.14 and 2.16 to the financial statements. The fair value of Put option was determined with the assistance of an independent firm of professional valuers, Roma Appraisals Limited ("Roma"), but it should be noted that the valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

#### **(vi) Fair value of treasury products**

The Group's treasury products are stated at fair value in accordance with the accounting policies stated in notes 2.11 and 2.14 to the financial statements. The fair values of treasury products as set out in note 28 in the financial statements were determined with reference to valuations provided by the banks/or conducted by an independent firm of professional valuers, Roma, using appropriate valuation techniques. The valuations involve significant estimates and judgements and hence the fair value of these structured products and embedded derivatives are subject to uncertainty.

#### **(vii) Fair value of investment property**

As disclosed in note 19, investment property is measured at fair value at the date of transfer from owner-occupied properties and revalued at the end of each reporting period. The fair values were determined with reference to valuations conducted by Roma, an independent firm of professional valuers. Such valuations were based on various assumptions which are subject to uncertainty and might materially differ from actual results. In making the judgement, the Group considered current prices in an active market for similar properties and used assumptions that were mainly based on market conditions existing at the end of the reporting period.

### Critical judgements in applying the accounting policies

#### **Research and development activities**

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems upon recognition. Judgements are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new products or know-how are continuously monitored by the Group's management.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 5. REVENUE

The Group's principal activities are disclosed in note 1 to these financial statements. Turnover of the Group is the revenue derived from these activities.

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| <b>Continuing operations</b>                       |                  |                  |
| Trading of pharmaceutical and health care products | 203,787          | 175,309          |
| <b>Discontinued operations</b>                     |                  |                  |
| Manufacturing of pharmaceutical products           | —                | 347,619          |
| Distributions                                      | —                | 195,725          |
| Pharmaceutical bulk materials                      | —                | 3,953            |
|  | —                | 547,297          |
|  | 203,787          | 722,606          |

## 6. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors. The executive directors based on their decisions about resource allocation to the Group's business components and for their review of the performance of those components on these reports. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

For the year ended 31 March 2012, the Group has identified the following reportable segments:

- (i) Trading pharmaceutical and health products — Trading of pharmaceutical and health care products
- (ii) Research and development — Research and development of chemical and biological products
- (iii) Investment and treasury function — Investment holding and treasury function



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 6. SEGMENT INFORMATION *(Continued)*

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

Previously, the Group identified the following reportable segments:

- (i) Pharmaceutical products — Manufacturing and sale of pharmaceutical products
- (ii) Trading pharmaceutical and health products — Trading of pharmaceutical and health care products
- (iii) Distributions — Distributions of pharmaceutical products
- (iv) Pharmaceutical bulk materials — Manufacturing and sale of pharmaceutical bulk materials

During the year ended 31 March 2011, certain operations including (i) Manufacturing of pharmaceutical products, (ii) Distributions; and (iii) Pharmaceutical bulk materials were discontinued as a result of disposal of certain subsidiaries, further details of which as set out in notes 11 and 41. In addition, during the year ended 31 March 2012, the management has reassessed and changed the information reported internally for the purposes of resources allocation and assessment of business performance. As a result, the reportable segments have changed in the current year and certain comparative figures in the segment information for the year ended 31 March 2011 have been restated on a similar basis.

The segment information reported below does not include any amounts for the discontinued operations, which are described in more detail in note 11.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- expenses related to share-based payments
- fair value gain or loss on Put options and gain on derecognition of Profit guarantee
- share of profit or loss of associates accounted for using the equity method
- finance costs incurred on corporate borrowings
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but exclude interests in associates. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, such as the Group's headquarters.

Segment liabilities exclude derivative financial liabilities in relation to Put options and Profit guarantee (further details set out in note 33). In addition, corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment. These include tax payable and deferred tax liabilities.

No asymmetrical allocations have been applied to reportable segments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 6. SEGMENT INFORMATION (Continued)

### Segment revenue, segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reconciliations to revenue, profit before income tax and discontinued operations, total assets, total liabilities and other segment information are as follows:

|   | Continuing operations                                    |                                |   |           |             |          |
|---|--|--------------------------------|---|-----------|-------------|----------|
|   | Trading<br>pharmaceu-<br>tical and<br>health<br>products | Research<br>and<br>development | Investment<br>and<br>treasury<br>function | Sub-total | Elimination | Total    |
|   | HK\$'000   | HK\$'000                       | HK\$'000                                  | HK\$'000  | HK\$'000    | HK\$'000 |
| For the year ended 31 March 2012                        |  |                                |   |           |             |          |
| Reportable segment revenue                              | 203,787  | —                              | —   | 203,787   | —           | 203,787  |
| Reportable segment profit/(loss)                        | 28,930   | (1,680)                        | 4,395                                     | 31,645    | 900         | 32,545   |
| Gain on derecognition of<br>Profit guarantee            |  |                                |   |           |             | 3,289    |
| Fair value gain on Put option                           |  |                                |   |           |             | 24,252   |
| Impairment of other receivables                         |  |                                |   |           |             | (20,211) |
| Finance costs on corporate borrowings                   |  |                                |   |           |             | (1,805)  |
| Share of results of associates                          |  |                                |   |           |             | 40,737   |
| Unallocated corporate income                            |  |                                |   |           |             | 3,863    |
| Unallocated corporate expenses                          |  |                                |   |           |             | (7,416)  |
| Profit before income tax and<br>discontinued operations |  |                                |   |           |             | 75,254   |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 6. SEGMENT INFORMATION (Continued)

Segment revenue, segment results, segment assets and segment liabilities (Continued)

|  | Continuing Operations                                    |                                |   |           |          |
|--|--|--------------------------------|---|-----------|----------|
|  | Trading<br>pharmaceu-<br>tical and<br>health<br>products | Research<br>and<br>development | Investment<br>and<br>treasury<br>function | Corporate | Total    |
|  | HK\$'000   | HK\$'000                       | HK\$'000                                  | HK\$'000  | HK\$'000 |
| <b>For the year ended</b>  |  |                                |   |           |          |
| <b>31 March 2012</b>   |  |                                |   |           |          |
| <b>Other information</b>   |  |                                |   |           |          |
| Interest income:   |  |                                |   |           |          |
| — Bank deposits and loans to associates  | 82   | 220                            | —   | 449       | 751      |
| — Bank deposits subject to interest rate swap contracts  | —  | —                              | 2,034                                     | —         | 2,034    |
| Finance costs  | —  | —                              | (1,599)                                   | (1,805)   | (3,404)  |
| Depreciation of property, plant and equipment  | (415)  | (248)                          | —   | —         | (663)    |
| Fair value loss on treasury products at fair value through profit or loss                      | —  | —                              | (428)                                     | —         | (428)    |
| Fair value gain/(loss) on other derivative financial instruments not qualifying as hedges, net | (159)  | —                              | 4,178                                     | —         | 4,019    |
| Additions to specified non-current asset #   | 809  | 18,963                         | —   | —         | 19,772   |
| Deposits for specified non-current asset #   | —  | 14,326                         | —   | —         | 14,326   |



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 6. SEGMENT INFORMATION (Continued)

Segment revenue, segment results, segment assets and segment liabilities (Continued)

|                                       | Continuing Operations                      |                          |                                  |                |
|---------------------------------------|--|--------------------------|----------------------------------|----------------|
|                                       | Trading pharmaceutical and health products | Research and development | Investment and treasury function | Total          |
|                                       | HK\$'000                                   | HK\$'000                 | HK\$'000                         | HK\$'000       |
| <b>As at 31 March 2012</b>            |  |                          |                                  |                |
| <b>Reportable segment assets</b>      | <b>153,415</b>                             | <b>55,817</b>            | <b>257,416</b>                   | <b>466,648</b> |
| Interests in associates               |  |                          |                                  | <b>408,464</b> |
| Tax recoverable                       |  |                          |                                  | <b>103</b>     |
| Other corporate assets                |  |                          |                                  | <b>57,738</b>  |
| <b>Consolidated total assets</b>      |  |                          |                                  | <b>932,953</b> |
| <b>As at 31 March 2012</b>            |  |                          |                                  |                |
| <b>Reportable segment liabilities</b> | <b>10,353</b>                              | <b>—</b>                 | <b>97,821</b>                    | <b>108,174</b> |
| Derivative financial liabilities      |  |                          |                                  |                |
| — Put option                          |  |                          |                                  | <b>53,704</b>  |
| Tax payables                          |  |                          |                                  | <b>6,969</b>   |
| Deferred tax liabilities              |  |                          |                                  | <b>1,192</b>   |
| Other corporate liabilities           |  |                          |                                  | <b>158,331</b> |
| <b>Consolidated total liabilities</b> |  |                          |                                  | <b>328,370</b> |

|   | Continuing operations  |   |   |  |  |  |
|---|--|---|---|--|--|--|
|   | Trading<br>pharmaceu-<br>tical products<br><i>HK\$'000</i><br>(Restated) | Research<br>and<br>development<br><i>HK\$'000</i><br>(Restated) | Investment<br>and treasury<br>function<br><i>HK\$'000</i><br>(Restated) | Sub-total<br><i>HK\$'000</i><br>(Restated) | Elimination<br><i>HK\$'000</i><br>(Restated) | Total<br><i>HK\$'000</i><br>(Restated) |
| <b>For the year ended 31 March 2011</b>                     |  |   |   |  |  |  |
| <b>Reportable segment revenue</b>                           | 175,309  | —   | —   | 175,309                                    | —  | 175,309                                |
| <b>Reportable segment profit/(loss)</b>                     | 27,709   | (1,675)   | 1,291   | 27,325                                     | 1,200  | 28,525                                 |
| Share-based payment expense                                 |  |   |   |  |  | (4,551)                                |
| Finance costs on corporate borrowings                       |  |   |   |  |  | (1,075)                                |
| Share of results of associates                              |  |   |   |  |  | (94)                                   |
| Unallocated corporate expenses                              |  |   |   |  |  | (1,749)                                |
| <b>Profit before income tax and discontinued operations</b> |  |   |   |  |  | 21,056                                 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 6. SEGMENT INFORMATION (Continued)

### Segment revenue, segment results, segment assets and segment liabilities (Continued)

|  | Continuing Operations  |  |  |                                     |                                 |
|--|--|--|--|-------------------------------------|---------------------------------|
|  | Trading<br>pharmaceu-<br>tical and<br>health<br>products<br>HK\$'000<br>(Restated) | Research<br>and<br>development<br>HK\$'000<br>(Restated) | Investment<br>and treasury<br>function<br>HK\$'000<br>(Restated) | Corporate<br>HK\$'000<br>(Restated) | Total<br>HK\$'000<br>(Restated) |
| <b>For the year ended</b>                        |  |  |  |                                     |                                 |
| <b>31 March 2011</b>                             |  |  |  |                                     |                                 |
| <b>Other information</b>                         |  |  |  |                                     |                                 |
| Interest income                                  | 78   | —  | —  | 1                                   | 79                              |
| Depreciation of property, plant<br>and equipment | (209)  | (75)   | —  | —                                   | (284)                           |
| Additions to specified non-current<br>assets #   | 3  | 11,867   | —  | —                                   | 11,870                          |
|  | Trading<br>pharmaceu-<br>tical and<br>health<br>products<br>HK\$'000<br>(Restated) | Research and<br>development<br>HK\$'000<br>(Restated)    | Investment<br>and treasury<br>function<br>HK\$'000<br>(Restated) | Total<br>HK\$'000<br>(Restated)     |                                 |
| <b>As at 31 March 2011</b>                       |  |  |  |                                     |                                 |
| <b>Reportable segment assets</b>                 | 110,468  | 16,183   | 77,746   | 204,397                             |                                 |
| Interests in associates                          |  |  |  | 400,999                             |                                 |
| Non-current assets held for sale                 |  |  |  | 9,692                               |                                 |
| Other corporate assets                           |  |  |  | 290,010                             |                                 |
| <b>Consolidated total assets</b>                 |  |  |  | 905,098                             |                                 |
| <b>As at 31 March 2011</b>                       |  |  |  |                                     |                                 |
| <b>Reportable segment liabilities</b>            | 33,978   | 482  | 77,755   | 112,215                             |                                 |
| Derivative financial liabilities                 |  |  |  |                                     |                                 |
| — Put option and profit guarantee                |  |  |  | 106,838                             |                                 |
| Tax payables                                     |  |  |  | 16,892                              |                                 |
| Other corporate liabilities                      |  |  |  | 61,803                              |                                 |
| <b>Consolidated total liabilities</b>            |  |  |  | 297,748                             |                                 |

# Including the Group's property, plant and equipment, investment property, intangible assets, deposit for land use right and interests in associates but excluding deferred tax assets

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 6. SEGMENT INFORMATION (Continued)

### Geographical information

The Group's revenue is predominantly derived from the PRC. An analysis of the Group's property, plant and equipment, investment property, intangible assets, deposit for land use right and interest in associates (i.e. specified non-current assets) by geographical locations, determined based on physical location of the assets or location of operations in case of interests in associates, is as follows:

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Hong Kong (place of domicile)           | 59,680           | 38,348           |
| Macau                                   | 1                | 2                |
| The PRC (excluding Hong Kong and Macau) | 424,755          | 382,763          |
|   | <b>484,436</b>   | <b>421,113</b>   |

### Information about major customers

During the year ended 31 March 2012, the Group had two (2011: two) customers with whom transactions of each has exceeded 10% of the Group's revenue. The revenue of HK\$148,943,000 (2011: HK\$139,625,000) and HK\$31,639,000 (2011: HK\$91,024,000) from these two customers accounted for 73% (2011: 19%) and 16% (2011: 13%) respectively of the Group's revenue for the year. The second largest customers for the year ended 31 March 2012, who accounted for 16% of the Group's total revenue for the year, is an associate of the Group.

As at 31 March 2012, accounts and bills receivable due from the largest customer accounted for 93% of the Group's total accounts and bills receivable balances while the balances due from the second largest customer were included in "amounts due from associates". As at 31 March 2011, total accounts and bills receivable due from the two customers accounted for 98% of such balances. The sales to these two customers (2011: two customers) are included in the segment of trading of pharmaceutical and health care products.

## 7. OTHER INCOME

### Continuing operations

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Interest income on bank deposits  | 2,374            | 79               |
| Interest income on loans to associates  | 411              | —                |
| Exchange gain, net  | 8,628            | —                |
| Fair value gain on derivative financial assets<br>(not qualifying as hedges), net | 4,019            | 1,291            |
| Gain on disposal of property, plant and equipment                                 | 73               | —                |
| Rental income   | 210              | —                |
| Others  | 533              | 360              |
|   | <b>16,248</b>    | <b>1,730</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 8. FINANCE COSTS

### Continuing operations

Interest charges on bank borrowings wholly repayable within five years

| 2012     | 2011     |
|----------|----------|
| HK\$'000 | HK\$'000 |
| 3,404    | 1,075    |

During the year, all finance costs (2011: all) were charged on bank borrowings which contain repayment on demand clause.

## 9. PROFIT BEFORE INCOME TAX

### Continuing operations

Profit before income tax is arrived at after charging/(crediting):

|   | 2012     | 2011     |
|---|----------|----------|
|   | HK\$'000 | HK\$'000 |
| Auditor's remuneration  | 600      | 770      |
| Costs of inventories recognised as expense including  | 168,472  | 127,095  |
| — Write off of inventories  | 5,834    | —        |
| Depreciation of property, plant and equipment (note (a))                                    | 663      | 284      |
| Employee benefit expenses (including directors' emoluments) (note 15)                       | 8,703    | 14,411   |
| Exchange (gain)/loss, net   | (8,628)  | 4,538    |
| Gain on derecognition of Profit guarantee (note 33(a))                                      | (3,289)  | —        |
| Fair value gain on Put option (note 33(b))  | (24,252) | —        |
| Fair value losses on treasury products at fair value through profit or loss (note 28)       | 428      | —        |
| Fair value gain on derivative financial instruments not qualifying as hedges, net (note 27) | (4,019)  | (1,291)  |
| Gain on disposal of property, plant and equipment   | (73)     | —        |
| Impairment loss on other receivables (note (b))   | 20,211   | —        |
| Operating lease charges in respect of premises  | 2,919    | 2,918    |
| Research and development costs (note (a))   | 1,092    | 280      |

Notes:

- (a) These are included in "Administrative expenses" in the consolidated statement of comprehensive income for the years ended 31 March 2012 and 2011.
- (b) Impairment loss on other receivables for the year ended 31 March 2012 comprises the followings:
  - (i) impairment provision of HK\$10,000,000 provided for the consideration receivable in relation to disposal of equity interests in Longchang Industrial Co. Ltd. (山西繁峙縣龍昌實業有限責任公司) ("Longchang") (note 26(a));
  - (ii) impairment provision of HK\$4,692,000 provided for the consideration receivable for exercising the Put Option of Leader Forever (note 22(a)); and
  - (iii) impairment provision of HK\$5,519,000 provided for other receivables. Based on impairment assessment, management determined that the balances are unlikely to be recovered and impairment provision was provided for in the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in PRC at 25% (2011: 25%).

For the year ended 31 March 2012, a former subsidiary of the Group, which was disposed of and became an associate of the Group since 30 March 2011 (as further detailed in notes 11 and 41), is entitled to preferential PRC EIT rate of 15% in accordance to the continuous implementation of the Western Development tax preferential policies which was extended to 31 March 2011.

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| <b>Continuing operations</b>              |                  |                  |
| Current tax                               |                  |                  |
| — Hong Kong                               |                  |                  |
| Tax for the year                          | 1,532            | 1,839            |
| Under-provision in respect of prior years | 227              | —                |
|   | <b>1,759</b>     | 1,839            |
| — PRC — Tax for the year                  | <b>1,685</b>     | —                |
| Deferred tax (note 34)                    |                  |                  |
| Current year                              | <b>1,192</b>     | —                |
|   | <b>4,636</b>     | 1,839            |

Reconciliation between tax expense and accounting profit at applicable tax rates:

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| <b>Continuing operations</b>  |                  |                  |
| Profit before income tax  | <b>75,254</b>    | 21,056           |
| Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | <b>12,442</b>    | 1,137            |
| Tax effect of non-deductible expenses   | <b>16,768</b>    | 1,522            |
| Tax effect of non-taxable revenue   | <b>(25,888)</b>  | (1,051)          |
| Tax effect of prior year's tax losses utilised  | <b>(51)</b>      | —                |
| Tax effect of temporary differences not recognised  | <b>364</b>       | (278)            |
| Others  | <b>(201)</b>     | 509              |
| Deferred tax provided for withholding tax on distributable profits of an PRC associate                            | <b>975</b>       | —                |
| Under provision in prior years  | <b>227</b>       | —                |
| Income tax expense  | <b>4,636</b>     | 1,839            |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 11. DISCONTINUED OPERATIONS

In early 2011, the Group negotiated and arranged for Kunming Jida Pharmaceutical Company Limited ("KJP") to place and issue 30% of its equity to certain strategic investors, and also arranged for KJP to reorganise its business in the PRC by acquiring the Company's wholly-owned subsidiaries, Yunnan Jiwa Pharm Logistics Company Limited ("YJPL") and Jiangsu Jiwa Rintech Pharmaceutical Company Limited ("JJRP") into a PRC pharmaceutical business structure that is headed by KJP (the "KJP Group").

Before the reorganisation, KJP, JJRP and YJPL were subsidiaries of the Group in which the Group held 70%, 100% and 100% of their registered capital respectively. The reorganisation effectively resulted in the Company disposing of the KJP Group by diluting its interest in these entities to 49%. In terms of cash to the Group, the reorganisation resulted in proceeds of RMB100,100,000, being received by the Group. As a result of the deemed disposal of the KJP Group, the operations carried out by these entities were classified as Discontinued Operations.

The results from the Discontinued Operations for the period from 1 April 2010 to 30 March 2011 are presented below:

|   | Period from<br>1 April 2010 to<br>30 March 2011<br>HK\$'000 |
|---|---|
| Revenue (note 5)                              | 547,297   |
| Cost of sales                                 | (260,201)   |
| Gross profit                                  | 287,096   |
| Other income                                  | 4,663   |
| Selling expenses                              | (159,661)   |
| Administrative expenses                       | (54,162)  |
| Finance costs                                 | (3,973)   |
| Profit before income tax                      | 73,963  |
| Income tax expense                            | (12,177)  |
| Profit after income tax                       | 61,786  |
| Gain on disposal of subsidiaries (note 41)    | 209,150   |
| Capital gains tax on disposal of subsidiaries | (15,285)  |
| Profit from discontinued operations           | 255,651   |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 11. DISCONTINUED OPERATIONS (Continued)

The net cash flows incurred by the Discontinued Operations for the period from 1 April 2010 to 30 March 2011 are presented below:

|                      | Period from<br>1 April 2010 to<br>30 March 2011<br>HK\$'000 |
|----------------------|---|
| Operating activities | 340,673   |
| Investing activities | (35,992)  |
| Net cash inflow      | 304,681   |

Subsequent to 30 March 2011, the Group continued to maintain an interest in the Discontinued Operations by virtue of its 49% interest in the KJP Group. Details of the turnover, net profit, assets and liabilities of the KJP Group are set out in note 22.

## 12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of HK\$70,620,000 (2011: HK\$255,663,000), a profit of HK\$33,871,000 (2011: HK\$95,392,000) has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

### (a) Dividends attributable to the year

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Final dividend proposed after the reporting date of HK\$0.021 per share (2011: HK\$0.060 per share) | 33,810           | 96,600           |

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of the retained profits for the year ended 31 March 2012.

### (b) Dividends attributable to the previous financial year, approved and paid during the year

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Final dividend in respect of the previous financial year of HK\$0.060 per share (2011: HK\$0.013 per share) | 96,600           | 20,930           |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 14. EARNINGS PER SHARE

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

|  | Continuing<br>operations<br>HK\$'000 | Discontinued<br>operations<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|--|-------------------|
| <b>Earnings</b>  |                                      |  |                   |
| <b>For the year ended 31 March 2012</b>  |                                      |  |                   |
| Earnings used in calculating basic earnings per share and diluted earnings per share attributable to owners of the Company during the year | 70,620                               | —                                      | 70,620            |
| <b>For the year ended 31 March 2011</b>  |                                      |  |                   |
| Earnings used in calculating basic earnings per share and diluted earnings per share attributable to owners of the Company during the year | 20,463                               | 235,200                                | 255,663           |
|  | 2012<br>'000                         | 2011<br>'000                           |                   |
| <b>Weighted average number of ordinary shares</b>  |                                      |  |                   |
| Weighted average number of ordinary shares used in calculating basic earnings per share  | 1,610,000                            | 1,610,000                              |                   |
| Effect of dilutive potential ordinary shares — Share options issued by the Company   | 7,652                                | 10,018                                 |                   |
| Weighted average number of ordinary shares used in calculating diluted earnings per share  | 1,617,652                            | 1,620,018                              |                   |

## 15. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| <b>Continuing operations</b>                              |                  |                  |
| Salaries and wages, other allowances and benefits in kind | 6,520            | 7,709            |
| Rentals for staff and directors                           | 1,920            | 1,900            |
| Share-based employee compensation (note 37)               | —                | 4,551            |
| Contribution to defined contribution plans                | 263              | 251              |
|   | 8,703            | 14,411           |



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

|  | Fees         | Salaries, housing, other allowances and benefits in kind | Share-based employee compensation (note (iii)) | Contribution to defined contribution plans | Total        |
|--|--------------|--|--|--|--------------|
|  | HK\$'000     | HK\$'000   | HK\$'000                                       | HK\$'000                                   | HK\$'000     |
| <b>For the year ended 31 March 2012</b>    |              |  |  |  |              |
| <b>Executive directors</b>                 |              |  |  |  |              |
| Mr. Lau Yau Bor                            | —            | 2,292  | —  | —  | 2,292        |
| Mr. Lau Kin Tung                           | 887          | 374  | —  | 12   | 1,273        |
| Madam Chan Hing Ming                       | —            | 775  | —  | —  | 775          |
| <b>Independent non-executive directors</b> |              |  |  |  |              |
| Mr. Choy Ping Sheung                       | 80           | —  | —  | —  | 80           |
| Mr. Fung Tze Wa                            | 100          | —  | —  | —  | 100          |
| Mr. Chiu Wai Piu                           | 100          | —  | —  | —  | 100          |
|  | <b>1,167</b> | <b>3,441</b>   | <b>—</b>                                       | <b>12</b>                                  | <b>4,620</b> |
| <b>For the year ended 31 March 2011</b>    |              |  |  |  |              |
| <b>Executive directors</b>                 |              |  |  |  |              |
| Mr. Lau Yau Bor                            | —            | 1,999  | —  | —  | 1,999        |
| Mr. Lau Kin Tung                           | —            | 2,259  | 3,873  | 12   | 6,144        |
| Madam Chan Hing Ming                       | —            | 448  | —  | —  | 448          |
| <b>Independent non-executive directors</b> |              |  |  |  |              |
| Mr. Choy Ping Sheung                       | 80           | —  | —  | —  | 80           |
| Mr. Fung Tze Wa                            | 100          | —  | —  | —  | 100          |
| Mr. Chiu Wai Piu                           | 100          | —  | —  | —  | 100          |
|  | <b>280</b>   | <b>4,706</b>   | <b>3,873</b>                                   | <b>12</b>                                  | <b>8,871</b> |

Notes:

- (i) There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2011: Nil).
- (ii) During the year, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).
- (iii) During the year, no share option was granted to the directors of the Company and employees of the Group. For the year ended 31 March 2011, an aggregate of 18,000,000 share options with a fair value of approximately HK\$4,551,000 were granted to a director of the Company and an employee to subscribe for ordinary shares of the Company (note 37).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2011: two) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2011: three) individuals during the year are as follows:

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Salaries, housing, other allowances and benefits in kind | 949              | 1,701            |
| Discretionary bonus                                      | 177              | 150              |
| Share-based employee compensation                        | —                | 678              |
| Contribution to defined contribution plans               | 24               | 36               |
|  | <b>1,150</b>     | <b>2,565</b>     |

Emoluments of the two (2011: three) individuals fell within the following bands:

|                               | Number of individuals |      |
|-------------------------------|-----------------------|------|
|                               | 2012                  | 2011 |
| Nil — HK\$1,000,000           | 2                     | 2    |
| HK\$1,500,001 — HK\$2,000,000 | —                     | 1    |

No emolument was paid by the Group to the directors or any of the five highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 17. PROPERTY, PLANT AND EQUIPMENT — GROUP

|  | Leasehold<br>land | Buildings | Motor<br>vehicles | Plant and<br>machinery | Furniture,<br>fixtures<br>and<br>equipment | Total     |
|--|-------------------|-----------|-------------------|------------------------|--|-----------|
|  | HK\$'000          | HK\$'000  | HK\$'000          | HK\$'000               | HK\$'000                                   | HK\$'000  |
| At 1 April 2010                          |                   |           |                   |                        |  |           |
| Cost                                     | 4,566             | 171,376   | 4,194             | 114,019                | 20,561                                     | 314,716   |
| Accumulated depreciation                 | (279)             | (31,604)  | (2,450)           | (27,069)               | (11,280)                                   | (72,682)  |
| Net carrying amount                      | 4,287             | 139,772   | 1,744             | 86,950                 | 9,281                                      | 242,034   |
| Year ended 31 March 2011                 |                   |           |                   |                        |  |           |
| Opening net carrying amount              | 4,287             | 139,772   | 1,744             | 86,950                 | 9,281                                      | 242,034   |
| Additions                                | —                 | 141       | —                 | 5,069                  | 1,349                                      | 6,559     |
| Disposals                                | —                 | —         | —                 | (2)                    | (10)                                       | (12)      |
| Depreciation                             | (35)              | (8,533)   | (387)             | (5,311)                | (1,620)                                    | (15,886)  |
| Transfer from construction in progress   | —                 | 3,513     | —                 | 4,359                  | 1,059                                      | 8,931     |
| Disposal of subsidiaries (note 41)       | —                 | (135,791) | (1,400)           | (92,934)               | (8,686)                                    | (238,811) |
| Translation differences                  | —                 | 3,365     | 43                | 1,869                  | 257  | 5,534     |
| Closing net carrying amount              | 4,252             | 2,467     | —                 | —                      | 1,630                                      | 8,349     |
| At 31 March 2011                         |                   |           |                   |                        |  |           |
| Cost                                     | 4,566             | 3,009     | —                 | —                      | 4,940                                      | 12,515    |
| Accumulated depreciation                 | (314)             | (542)     | —                 | —                      | (3,310)                                    | (4,166)   |
| Net carrying amount                      | 4,252             | 2,467     | —                 | —                      | 1,630                                      | 8,349     |
| Year ended 31 March 2012                 |                   |           |                   |                        |  |           |
| Opening net carrying amount              | 4,252             | 2,467     | —                 | —                      | 1,630                                      | 8,349     |
| Additions                                | —                 | —         | 673               | —                      | 870  | 1,543     |
| Depreciation                             | (35)              | (37)      | (224)             | —                      | (367)                                      | (663)     |
| Gain on revaluation upon transfer (note) | 14,181            | 8,172     | —                 | —                      | —  | 22,353    |
| Transfer to investment property (note)   | (18,398)          | (10,602)  | —                 | —                      | —  | (29,000)  |
| Translation differences                  | —                 | —         | —                 | —                      | 70   | 70        |
| Closing net carrying amount              | —                 | —         | 449               | —                      | 2,203                                      | 2,652     |
| At 31 March 2012                         |                   |           |                   |                        |  |           |
| Cost                                     | —                 | —         | 673               | —                      | 5,885                                      | 6,558     |
| Accumulated depreciation                 | —                 | —         | (224)             | —                      | (3,682)                                    | (3,906)   |
| Net carrying amount                      | —                 | —         | 449               | —                      | 2,203                                      | 2,652     |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 17. PROPERTY, PLANT AND EQUIPMENT — GROUP (Continued)

Note:

On 1 January 2012, the Group leased out its self-occupied commercial unit, for administrative purposes in Hong Kong, to an associate of the Group to earn rental income and this commercial unit has been reclassified to investment property (note 19). The carrying amounts of the leasehold land portion and building portion of this property were HK\$4,217,000 and HK\$2,430,000 respectively immediately before the transfer. The Group recognised an aggregate fair value gain of HK\$22,353,000 on the date of transfer, which was included in asset revaluation reserve in equity. This property is held under a lease of over 50 years. This property was pledged to secure the Group's bank borrowings (note 31) as at 31 March 2011 and 2012 (also note 19).

## 18. LAND USE RIGHTS — GROUP

|                                    | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Opening net carrying amount        | —                | 30,388           |
| Amortisation during the year       | —                | (80)             |
| Disposal of subsidiaries (note 41) | —                | (31,022)         |
| Translation difference             | —                | 714              |
| Closing net carrying amount        | —                | —                |

## 19. INVESTMENT PROPERTY — GROUP

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Opening net carrying amount                           | —                | —                |
| Transfer from property, plant and equipment (note 17) | 29,000           | —                |
| Closing net carrying amount                           | 29,000           | —                |

Notes:

As mentioned in note 17, this property is held under a lease of over 50 years and as at the reporting date, this property was pledged to secured the Group's bank borrowings (note 31).

The Group recognised a fair value gain of HK\$22,353,000 on the date of transfer. This amount is recognised in asset revaluation reserve in equity. As a consequence of early adoption of amendments to HKAS 12, deferred tax liabilities arising from this revaluation gain amounting to HK\$4,204,000 has not been recognised in the financial statements, details of which are set out in note 3(b) to the financial statements.

The fair value of the property as at the date of transfer and as at 31 March 2012 were assessed by Roma, an independent firm of professional qualified valuers, on an open market basis.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 20. CONSTRUCTION IN PROGRESS — GROUP

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| As at 1 April                                | —                | 25,149           |
| Additions                                    | —                | 29,476           |
| Transferred to property, plant and equipment | —                | (8,931)          |
| Disposal of subsidiaries (note 41)           | —                | (46,263)         |
| Translation difference                       | —                | 569              |
| As at 31 March                               | —                | —                |

The balance at 1 April 2010 and additions in previous year mainly related to construction costs on the new GMP production facilities of the KJP Group. Net interest capitalised in the additions for the year ended 31 March 2011 was HK\$483,000.

## 21. INTERESTS IN SUBSIDIARIES — COMPANY

### (a) Investments in subsidiaries

|                          | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Unlisted shares, at cost | 82,380           | 82,380           |

Particulars of the Company's subsidiaries as at 31 March 2012 are as follows:

| Name of company                    | Place of incorporation and kind of legal entity           | Particulars of issued and paid up capital  | Percentage of issued capital effectively held by the Company | Principal activities and place of operation   |
|------------------------------------|---|--|--|---|
| Jiwa Development Co. Ltd.          | British Virgin Islands ("BVI"), limited liability company | 50,000 ordinary shares of US\$1 each (2011: 100,000 ordinary shares of US\$0.5 each) | 100%*  | Investment holding, Hong Kong                 |
| Jiwa International Limited ("JIL") | Hong Kong, limited liability company                      | 1,000 ordinary shares of HK\$1,000 each  | 100%   | Trading of pharmaceutical products, Hong Kong |
| Jiwa Pharmaceuticals Limited       | Hong Kong, limited liability company                      | 1,000 ordinary shares of HK\$1,000 each  | 100%   | Investment holding, Hong Kong                 |
| Tech-Medi Development Limited      | Hong Kong, limited liability company                      | 200 ordinary shares of HK\$1,000 each  | 100%   | Trading of health care products, Hong Kong    |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 21. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

### (a) Investments in subsidiaries (Continued)

| Name of company   | Place of incorporation and kind of legal entity | Particulars of issued and paid up capital | Percentage of issued capital effectively held by the Company | Principal activities and place of operation               |
|---|---|---|--|---|
| Jiwa Rintech Holdings Limited                               | BVI, limited liability company                  | 10 ordinary shares of US\$1 each          | 100%   | Investment holding, Hong Kong                             |
| Sino-Tech International (Macao Commercial Offshore) Limited | Macau, limited liability company                | MOP100,000                                | 100%   | Trading of pharmaceutical products, Macau                 |
| Jiwa Pharm & Chemicals Limited                              | Hong Kong, limited liability company            | 1,000 ordinary shares of HK\$1,000 each   | 100%   | Investment holding, Hong Kong                             |
| Yunnan Jiwa Biotech Limited                                 | PRC, limited liability company                  | RMB23,623,392 (2011: US\$530,000)         | 100%   | Manufacturing and trading of pharmaceutical products, PRC |
| Rise Hill Development Limited                               | BVI, limited liability company                  | 1,000 ordinary shares of US\$1 each       | 60%  | Not yet commence business                                 |
| Base Affirm International Limited                           | BVI, limited liability company                  | 1,000 ordinary shares of US\$1 each       | 100%   | Investment holding, Hong Kong                             |

\* Issued capital held directly by the Company

### (b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

The carrying amounts of amounts due from subsidiaries approximate to their fair values.

## 22. INTERESTS IN ASSOCIATES — GROUP

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| At beginning of the year  | 400,999          | 19,738           |
| Fair value of retained equity interest in former subsidiaries (note 41) | —                | 391,047          |
| Share of results of associates  | 40,737           | (94)             |
| Dividend received   | (33,272)         | —                |
| Classified as non-current assets held for sale (note (a) and (b))       | —                | (9,692)          |
| At end of the year  | 408,464          | 400,999          |

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 22. INTERESTS IN ASSOCIATES — GROUP (Continued)

Note:

- (a) During the year ended 31 March 2011, the Group exercised the put option pursuant to the shareholders' agreement of Leader Forever Limited ("Leader Forever"), the Group's former associate, requiring the controlling shareholder of Leader Forever to re-purchase the 1,000 shares of Leader Forever held by the Group at a consideration of HK\$10,000,000. As at 31 March 2011, consideration of HK\$3,000,000 was received from the controlling shareholder. The exercise of put option evidenced management's intention to recover the investment in Leader Forever through selling the shares rather than by continuing investment. Accordingly, the Group classified the net carrying value of its interests in Leader Forever amounted to HK\$9,692,000 as "non-current assets held for sale" in the consolidated statement of financial position as at 31 March 2011 (note 30).

During the year, a further amount of HK\$2,000,000 was received. As at 31 March 2012, the directors of the Company determined that the remaining consideration receivable is unlikely to be recovered and impairment provision for such amount was provided for accordingly (note 9(b)(ii)).

- (b) During the year, the Group has exercised the put option pursuant to the shareholders' agreement of Vital Element Investments Limited ("Vital Element"), the Group's former associate, requiring the controlling shareholder of Vital Element to re-purchase 500 shares of Vital Element held by the Group at a consideration of HK\$2,500,000. No consideration was received during the year. The exercise of put option evidenced management's intention to recover the investment in the 500 shares of Vital Element through selling the shares rather than by continuing investment. Accordingly, the Group re-classified its interests in Vital Element as a "non-current asset held for sale" in the consolidated statement of financial position (note 30). As at the date of the exercise of the put option, the net carrying value of the Group's interests in Vital Element was nil, representing initial investment cost of HK\$5,000,000, less the accumulated amount of share of losses of Vital Element up to the date of exercise of the put option.

As at 31 March 2012, other than those shares subject to put option, the Group held another 500 shares in Vital Element. The net carrying value of these remaining 500 shares was nil, representing initial investment cost of HK\$5,000,000, less the accumulated amount of share of losses of Vital Element up to nil at the reporting date. There was no further share of loss of Vital Element recognised by the Group at the reporting date as the net carrying value of the Group's interests in Vital Element is nil. The amount of the Group's unrecognised share of losses of this associate as at 31 March 2012 was HK\$1,413,000 (2011: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 22. INTERESTS IN ASSOCIATES — GROUP (Continued)

Particulars of the associates at 31 March 2012 are as follows:

| Name of company  | Place of incorporation and kind of legal entity | Particulars of issued and paid up capital | % of issued capital held | Principal activities and place of operation               |
|--|---|---|--------------------------|---|
| KJP  | PRC, limited liability company                  | Reminbi ("RMB")<br>189,048,600            | 49%                      | Manufacturing and trading of pharmaceutical products, PRC |
| JJRP   | PRC, limited liability company                  | RMB73,000,000                             | 49%                      | Manufacturing and trading of pharmaceutical products, PRC |
| YJPL   | PRC, limited liability company                  | US\$2,100,000                             | 49%                      | Trading of pharmaceutical products, PRC                   |
| Jida Pharm (HK) Trading Co Limited ("Jida Pharm (HK)") | HK, limited liability company                   | 300,000 ordinary shares of HK\$1 each     | 49%                      | Trading of pharmaceutical products, HK                    |

The above associates have a financial year ending 31 December, which is not coterminous with that of the Group. The consolidated financial statements have been adjusted for material transactions between associates and group companies between 1 January and 31 March.

The aggregate amounts as extracted from the financial statements of the associates for the year ended 31 March 2012 and 2011 are as follows:

|                             | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| Assets                      | 1,019,352        | 880,635          |
| Liabilities                 | 509,831          | 452,360          |
| Revenue                     | 764,037          | —                |
| Profit/(Loss) for the year* | 57,981           | (316)            |

The Group has not incurred any contingent liabilities or other commitments relating to its investments in associates.

Amounts due from/(to) associates are unsecured, interest-free and repayable on demand.

The carrying amounts of these balances approximate their fair value.

\* Loss for the year ended 31 March 2011 in which the associates were equity accounted for amounted to HK\$316,000. Profit of the KJP Group for the period from 1 April 2010 up to 30 March 2011 has been accounted for under Discontinued Operation for that year (see note 11).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 23. INTANGIBLE ASSETS — GROUP

|   | Technical<br>know-how<br>HK\$'000 |
|---|-----------------------------------|
| Year ended 31 March 2011                    |                                   |
| Opening net carrying amount                 | 5,720                             |
| Additions                                   | 12,141                            |
| Amortisation charge                         | (612)                             |
| Disposal of subsidiaries ( <i>note 41</i> ) | (5,619)                           |
| Translation difference                      | 135                               |
| <b>Closing net carrying amount</b>          | <b>11,765</b>                     |
| At 31 March 2011                            |                                   |
| Cost  | 11,765                            |
| Accumulated amortisation                    | —                                 |
| <b>Net carrying amount</b>                  | <b>11,765</b>                     |
| Year ended 31 March 2012                    |                                   |
| Opening net carrying amount                 | 11,765                            |
| Additions                                   | 18,229                            |
| <b>Closing net carrying amount</b>          | <b>29,994</b>                     |
| At 31 March 2012                            |                                   |
| Cost  | 29,994                            |
| Accumulated amortisation                    | —                                 |
| <b>Net carrying amount</b>                  | <b>29,994</b>                     |

The Group's technical know-how as at reporting dates represent technology and formulae acquired for the development and production of pharmaceutical products.

During the year ended 31 March 2011, the Group entered into an agreement with an independent third party (the "Partner"), pursuant to which the Partner grants exclusive right to the Group, for a consideration of RMB10,000,000 (equivalent to HK\$12,141,000) to use the technology and to assist the Group to develop and apply the technology to mass production of pharmaceutical products.

During the year ended 31 March 2012, the Group entered into a supplementary agreement with the Partner pursuant to which the Group agreed to pay a further RMB15,000,000 (equivalent to HK\$18,229,000) to enable the technology to be applied for commercial production.

Up to the date of approval of these consolidated financial statements, the development of the technology is still in progress and has not yet been applied to mass production.

The directors of the Company consider that as technical know-how has not yet been available for use, the balances are not amortised during the years ended 31 March 2012 and 2011, but are subject to impairment test at least annually, or more frequently when there are indications that its carrying amount may not be recoverable.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 23. INTANGIBLE ASSETS — GROUP (Continued)

For impairment assessment purposes, intangible assets are allocated to the CGU within research and development segment and are tested for impairment by management by estimating the recoverable amount of the CGU based on value-in-use calculation. The calculation uses cash flow projections based on a business plan approved by management covering a period of 5 years, and discount rate of 19%. Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount to exceed the recoverable amount of the asset.

As at 31 March 2012, management of the Group determines that there is no impairment of intangible assets (2011: Nil).

### 24. INVENTORIES — GROUP

|                  | 2012     | 2011     |
|------------------|----------|----------|
|                  | HK\$'000 | HK\$'000 |
| Raw materials    | 521      | 497      |
| Work in progress | —        | —        |
| Finished goods   | 65       | 13,483   |
|                  | <hr/>    | <hr/>    |
|                  | 586      | 13,980   |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 25. ACCOUNTS RECEIVABLE — GROUP

The directors of the Company consider that the fair values of accounts receivable are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.

The Group generally allows a credit period of 30 days to 180 days (2011: 30 days to 180 days) to its trade customers. Based on invoice date, ageing analysis of the Group's accounts receivable is as follows:

|                                      | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Within 3 months                      | 15               | 37,427           |
| Over 3 months but less than 6 months | 57,933           | 18,662           |
| Over 6 months                        | 1,178            | 15,342           |
|                                      | <b>59,126</b>    | <b>71,431</b>    |

At each reporting date, the Group first assesses whether objective evidence of impairment exists individually for its accounts receivable that are individually significant, and individually or collectively for accounts receivable that are not individually significant. The Group also assesses collectively for accounts receivable with similar credit risk characteristics for impairment. The impaired receivables, if any, are determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised if the amount is determined to be irrecoverable. Based on impairment assessment, no impairment loss was recognised for the Group's accounts receivable for the years ended 31 March 2012 and 2011.

The Group did not hold any collateral as security or other credit enhancements over the accounts receivable, whether determined on an individual or collective basis.

Ageing analysis of the Group's accounts receivable that were past due as at the reporting dates but not impaired, based on due date is as follows:

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Past due and not impaired                    |                  |                  |
| Not more than 1 month past due               | —                | 12,507           |
| Over 1 month but less than 6 months past due | 1,242            | 3,070            |
|  | <b>1,242</b>     | <b>15,577</b>    |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 25. ACCOUNTS RECEIVABLE — GROUP (Continued)

As at 31 March 2012, accounts receivable of HK\$57,884,000 (2011: HK\$55,854,000) were neither past due nor impaired. These related to a number of customers from whom there was no recent history of default.

Accounts receivable that were past due but not impaired relate to customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

## 26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES — GROUP

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Deposits  | 14,858           | 530              |
| Other receivables, net (notes (a) and (b))                                    | 21,450           | 149,628          |
| Prepayments   | 3,118            | 5,300            |
|   | <b>39,426</b>    | 155,458          |
| Less: Deposit for land use right included under non-current assets (note (c)) | <b>(14,326)</b>  | —                |
| Prepayments included under current assets                                     | <b>25,100</b>    | 155,458          |

Notes:

- Other receivables as at 31 March 2012 included outstanding consideration in relation to disposal of equity interest in Longchang of HK\$22,013,000 (2011: HK\$22,013,000), net of impairment provision of HK\$10,000,000 (2011: Nil). The receivable was secured by 10% equity interest of a PRC entity and personal guarantee provided by a shareholder of that PRC entity. Having assessed the impairment, management estimates that an amount of HK\$10,000,000 (2011: Nil) is not recoverable and hence impairment provision has been made (note 9(b)(i)).
- Other receivables as at 31 March 2011 included consideration receivable of HK\$117,765,000 arising from disposal of the subsidiaries as detailed in note 41. The balance has been received in full during the year.
- During the year, amount of RMB11,604,000 (equivalent to HK\$14,326,000) was paid by the Group for the land use rights in Yunnan, the PRC. As the legal title of the land has not yet been transferred to the Group at the reporting date, the balance is classified as a non-current deposit.

The carrying amount of deposits and other receivables is considered a reasonable approximation of fair value.

## 27. DERIVATIVE FINANCIAL ASSETS

These relate to interest rate swap and foreign currency forward contracts entered into by the Group to mitigate exchange rate exposure of RMB against HK\$ or United States dollars ("US\$") and interest rate exposure arising from certain bank borrowings of HK\$97,821,000 (2011: HK\$77,755,000) (note 31) which are interest bearing at floating rate.

These derivative financial instruments are stated at fair value, which has been measured as described in note 42(g). During the year, net fair value gain of HK\$4,019,000 (2011: HK\$1,291,000) was credited to "Fair value gain on derivative financial instruments not qualified as hedges, net" under other income, which is also the carrying value of these derivative financial assets as at 31 March 2012.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 28. TREASURY PRODUCTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Unlisted debt securities with principal protected at maturity by Bankers |                  |                  |
| — Designated at fair value through profit or loss                        | 161,032          | —                |

The Group's treasury products as at 31 March 2012 include the followings:

- debt securities (including embedded derivatives) of HK\$58,792,000 with redemption amount that is indexed to the value of equity instruments and principal protected at maturity by Standard Chartered Bank London
- debt securities (including embedded derivatives) of HK\$43,003,000 with redemption amount that is indexed to the London Interbank Offered Rate and principal protected at maturity by The Hongkong and Shanghai Banking Corporation Limited; and
- debt securities (including embedded derivatives) of HK\$59,237,000 with redemption amount that is indexed to exchange rates of a basket of currencies and principal protected at maturity by Standard Chartered Bank London.

The fair value of the Group's unlisted securities has been measured as described in note 42(g). During the year, fair value loss of HK\$428,000 (2011: Nil) was recognised.

As at 31 March 2012, treasury products with net carrying amount of HK\$141,427,000 have been pledged to the banks as security for certain bank borrowings (note 31).

## 29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS — GROUP

|                             | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| Cash and bank balances      | 58,532           | 9,506            |
| Time deposits               | 90,008           | 76,455           |
| Less: Pledged bank deposits | (90,008)         | (76,455)         |
| Cash and cash equivalents   | 58,532           | 9,506            |

Time deposits earn 2.28% to 2.95% interest per annum (2011: 1.72% to 2.50%). These deposits have been pledged to secure the Group's bank borrowings (note 31). The directors of the Company consider that the fair value of time deposits is not materially different from its carrying amount.

Included in cash and bank balances of the Group are bank balances of HK\$6,374,000 (2011: HK\$347,000) denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 30. NON-CURRENT ASSETS HELD FOR SALE — GROUP

The Group's equity interests in Leader Forever and Vital Element have been presented as "Non-current assets held for sale" following the exercise of the put options by the Group requesting the controlling shareholder of Leader Forever and Vital Element to repurchase the shares held by the Group. Details of the put options and arrangements are detailed in note 22.

Movements in the net carrying value of non-current assets held for sale are as follows:

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| At beginning of the year                            | 9,692            | —                |
| Reclassified from interests in associates (note 22) | —                | 9,692            |
| Consideration received (note 22(a))                 | (5,000)          | —                |
| Impairment loss recognised (note 22(a))             | (4,692)          | —                |
| At end of the year                                  | —                | 9,692            |

Particulars of Leader Forever and Vital Element as at 31 March 2012 are as follows:

| Name of company | Place of incorporation and kind of legal entity | Particulars of issued and paid up capital | % of issued capital held | Principal activities and place of operation         |
|-----------------|---|---|--------------------------|---|
| Leader Forever  | BVI, limited liability company                  | 2,500 ordinary shares of US\$1 each       | 40%                      | Research and development of pharmaceutical products |
| Vital Element   | BVI, limited liability company                  | 4,000 ordinary shares of US\$1 each       | 25%                      | Research and development of pharmaceutical products |

### 31. BANK BORROWINGS — GROUP

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| <b>Current liabilities</b>   |                  |                  |
| Portion of term loans from banks due for repayment within one year   | 156,821          | 116,955          |
| Portion of term loans from banks due for repayment after one year which contain a repayment on demand clause | 99,250           | 18,550           |
|  | 256,071          | 135,505          |

All bank borrowings are interest bearing and are carried at amortised cost. All term loans which contain a repayment on demand clause are classified as current liabilities as at reporting date. The directors of the Company expects that the term loans with repayment on demand clause will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 31. BANK BORROWINGS — GROUP (Continued)

|                                 | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Bank loans:                     |                  |                  |
| secured by pledge of assets     | 240,071          | 98,005           |
| not secured by pledge of assets | 16,000           | 37,500           |
|                                 | <b>256,071</b>   | 135,505          |

Bank borrowings of HK\$240,071,000 as at 31 March 2012 are secured by the Group's investment property with net carrying amount of HK\$29,000,000 (note 19), bank deposits of HK\$90,008,000 (note 29) and treasury products with net carrying amount of HK\$141,427,000 (note 28).

Bank borrowings of HK\$98,005,000 as at 31 March 2011 were secured by the Group's leasehold land and buildings with an aggregate net carrying amount of HK\$6,719,000 (note 17) and bank deposits of HK\$76,455,000 (note 29).

All of the Group's borrowings as at 31 March 2012 and 2011 are guaranteed by the Company.

Based on the repayment dates set out in the loan agreements and ignoring the effect of any repayment on demand clauses, at 31 March 2012, the Group's bank borrowings are scheduled to be repaid as follows:

|                                  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|----------------------------------|------------------|------------------|
| Due within 1 year or on demand   | 156,821          | 116,955          |
| After 1 year but within 2 years  | 99,250           | 6,200            |
| After 2 years but within 5 years | —                | 12,350           |
|                                  | <b>256,071</b>   | 135,505          |

The effective interest rates of the Group's bank borrowings at the reporting dates were as follows:

|   | Interest rates   |   |
|---|--|---|
|   | 2012   | 2011  |
| Bank borrowings in HK\$ — Floating rate,<br>to mature between 2011 and 2015 | 1% to 2.5%<br>above one-month,<br>three-months and<br>six months HIBOR | 0.5% to 2.75%<br>above one-month,<br>three-months and six<br>months HIBOR |
| Bank borrowings in US\$ — Floating rate,<br>to mature between 2011 and 2013 | 1% to 1.25% above<br>one-month LIBOR                                   | 1% to 1.25%<br>above one-month<br>LIBOR                                   |

In the opinion of the directors, the carrying amounts of the Group's bank borrowings approximate their fair values.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 31. BANK BORROWINGS — GROUP (Continued)

The Group's bank borrowings are subject to the fulfilment of certain loan covenants. In the circumstances where the covenants are not met, the drawn down facilities will become repayable on demand. Pursuant to the loan agreements entered into by KJP and JJRP with one of its bankers, KJP and JJRP are required to remain as subsidiaries of the Group (the "Subsidiary Covenant"). As detailed in note 11, however, after the reorganisation, KJP and JJRP became 49%-owned associated companies of the Group from 30 March 2011 and accordingly, the Subsidiary Covenant is not met. Subsequent to 31 March 2012, the Group had received a waiver letter from the bank in relation to the Subsidiary Covenant and the bank has agreed to amend the term such that KJP and JJRP are required to remain not less than 49% owned by the Company.

### 32. ACCOUNTS AND BILLS PAYABLE — GROUP

Ageing analysis of accounts and bills payable is as follows:

|                                   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Accounts payable                  |                  |                  |
| Within 3 months                   | —                | 8,700            |
| Over 3 months but within 6 months | —                | —                |
| Over 6 months                     | —                | 479              |
|                                   |                  |                  |
|                                   | —                | 9,179            |
| Bills payable                     | 4,992            | 11,077           |
|                                   |                  |                  |
|                                   | 4,992            | 20,256           |

Accounts and bills payable are non-interest bearing and are all expected to be settled within one year.

The fair values of the Group's accounts and bills payable at 31 March 2012 and 2011 approximate to their corresponding carrying amounts due to their short-term maturities.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 33. DERIVATIVE FINANCIAL LIABILITIES — GROUP

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Fair value of Profit guarantee ( <i>note (a)</i> ) | —                | 28,882           |
| Fair value of Put option ( <i>note (b)</i> )       | 53,704           | 77,956           |
|  | <b>53,704</b>    | <b>106,838</b>   |

Notes:

- (a) Pursuant to the terms of the capital injection (the "Capital Injection") in relation to the disposal of the subsidiaries as detailed in notes 11 and 41, the Group would compensate the independent subscribers for any shortfall if there was non-compliance of the Profit guarantee. Accordingly, the management of the Company applied discounted cash flow for fair value calculation of the possible compensation by reference with the agreed mechanism at HK\$28,882,000 on initial recognition and as at 31 March 2011.

During the year ended 31 March 2012, the Group wrote back the over-provision of tax provided in relation to the disposal of subsidiaries amounted to HK\$6,048,000. In addition, the Group acquired certain property, plant and equipment and inventories and took up certain prepayments and other receivables balances from KJP and JJRP at aggregate consideration of HK\$31,641,000. These assets were later fully written off by the Group. In the opinion of the management, these amounts were incurred by the Group in connection with the Profit guarantee arrangement and accordingly, these amounts were adjusted against the carrying value of the Profit guarantee. As at 31 March 2012, the Profit guarantee period expired and accordingly, the Group derecognised the financial liability in relation to Profit guarantee and recognised the corresponding balance in the amount of HK\$3,289,000 in "Other gains/(losses) — Gain on derecognition of Profit guarantee".

- (b) In connection with the Capital Injection, the Group and the subscribers entered into agreements, pursuant to which Put options were granted to the subscribers. The Group had obligations to purchase the equity interests from the subscribers upon exercise of the options by the subscribers if KJP does not obtain a listing on a stock exchange within 48 months from the completion date of Capital Injection. Each of the subscribers may, within 6 months from the expiry of such 48 months, request the Group to purchase the subscribers' interest in KJP, plus a compound interest of 10% per annum thereon. The Put option was valued by an independent valuer, Roma, using Black-Scholes Option Pricing Model.

On initial recognition and as at 31 March 2011, the fair value of the put option was HK\$77,956,000.

As at 31 March 2012, the fair value of the Put option was estimated with the assistance of Roma, an independent professional valuer as HK\$53,704,000. The Group recognised the change in fair value of HK\$24,252,000 in profit or loss under "Other gains/(losses) — Fair value gain on Put option".

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

### 34. DEFERRED TAX

#### GROUP

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

|  | Revaluation<br>of land<br>and<br>building<br>HK\$'000 | Internally<br>generated<br>intangible<br>assets<br>HK\$'000 | Investment<br>property<br>HK\$'000 | With-<br>holding<br>tax<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---|------------------------------------|-------------------------------------|--------------------|-------------------|
| At 1 April 2010                        | (6,022)   | 3,346   | —                                  | —                                   | 391                | (2,285)           |
| Credited to profit or loss             | 407   | 1,987   | —                                  | —                                   | —                  | 2,394             |
| Disposal of subsidiaries<br>(note 41)  | 5,758   | (5,423)   | —                                  | —                                   | (408)              | (73)              |
| Translation difference                 | (143)   | 90  | —                                  | —                                   | 17                 | (36)              |
| At 31 March 2011 and<br>1 April 2011   | —   | —   | —                                  | —                                   | —                  | —                 |
| Charged to profit or loss<br>(note 10) | —   | —   | 217                                | 975                                 | —                  | 1,192             |
| <b>At 31 March 2011</b>                | <b>—</b>  | <b>—</b>  | <b>217</b>                         | <b>975</b>                          | <b>—</b>           | <b>1,192</b>      |

As at 31 March 2012, the Group did not have any tax losses available to carry forward to offset against future assessable profits. As at 31 March 2011, the Group had not recognised deferred tax assets in respect of unused tax losses of HK\$417,000 because of the unpredictability of future profit streams. These tax losses do not expire under current legislation.

Pursuant to the PRC Corporate Income Tax Law, effective from 1 January 2008, 10% withholding tax is levied on dividends declared to the Group from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investor. The Group is therefore liable for withholding taxes at 5% on dividend distributed by its subsidiaries and associates established in the PRC in respect of earnings generated from 1 January 2008. As at 31 March 2012, deferred tax liabilities of approximately HK\$975,000 (2011: Nil) have been recognised in respect of the distributable earnings of a PRC associate amounted to approximately HK\$19,506,000 (2011: Nil).

#### Company

At 31 March 2012, no deferred tax has been provided in the financial statements of the Company as the Company did not have any material temporary differences (2011: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 35. SHARE CAPITAL

|                                  | 2012             |                    | 2011             |                    |
|----------------------------------|------------------|--------------------|------------------|--------------------|
|                                  | Number of shares | Amount<br>HK\$'000 | Number of shares | Amount<br>HK\$'000 |
| <b>Authorised:</b>               |                  |                    |                  |                    |
| Ordinary shares of HK\$0.01 each | 10,000,000,000   | 100,000            | 10,000,000,000   | 100,000            |
|                                  |                  |                    |                  |                    |
|                                  | 2012             |                    | 2011             |                    |
|                                  | Number of shares | Amount<br>HK\$'000 | Number of shares | Amount<br>HK\$'000 |
| <b>Issued and fully paid:</b>    |                  |                    |                  |                    |
| Ordinary shares of HK\$0.01 each | 1,610,000,000    | 16,100             | 1,610,000,000    | 16,100             |

## 36. RESERVES

### Group

Please refer to the consolidated statement of changes in equity on pages 30 and 31 for reserves of the Group.

#### (i) *Contributed surplus*

Pursuant to the Group's corporate reorganisation of the Group during 2002 to 2003 (the "Reorganisation"), the Company became the holding company of the Group on 24 September 2003. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus. The balance is available for distribution to shareholders subject to the provision under section 54 of the Companies Act of Bermuda.

#### (ii) *General reserve fund and Enterprise expansion fund*

In accordance with the articles of association and equity joint venture agreement, the subsidiaries in the PRC are required to set up a general reserve fund and an enterprise expansion fund, which are non-distributable. Appropriations of these reserves are at discretion of the directors of the respective subsidiaries.

#### (iii) *Asset revaluation reserve (renamed from "Revaluation adjustment reserve" during the year)*

The balance as at 1 April 2010 represented the fair value adjustment which was attributable to the 5% increase in the shareholdings of KJP. As KJP had become an associate of the Group since 30 March 2011, the balance was transferred to retained profit during the year ended 31 March 2011.

Movements during the year and the balance as at 31 March 2012 relate to the revaluation of owner-occupied property upon reclassification to investment property (note 17).

The account was renamed from "Revaluation adjustment reserve" to "Asset revaluation reserve" in the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 36. RESERVES (Continued)

### Group

#### (iv) Capital reserve

Upon completion of the capital verification on 25 April 2003, KJP capitalised the enterprise expansion fund of RMB3,000,000 as its registered share capital according to a board resolution dated 18 January 2003. The amount was recognised as capital reserve in the consolidated statement of financial position.

#### (v) Share premium

This represents the premium arising from the issue of shares, net of placing expenses.

### Company

|  | Share premium<br>HK\$'000 | Contributed surplus<br>HK\$'000 | Share option reserve<br>HK\$'000 | Retained profits<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------|---------------------------------|----------------------------------|------------------------------|-------------------|
| At 1 April 2010  | 56,097                    | 82,180                          | 1,285                            | 24,421                       | 163,983           |
| Dividend paid in respect of the previous year (note 13(b)) | —                         | —                               | —                                | (20,930)                     | (20,930)          |
| Grant of share option (note 37)                            | —                         | —                               | 4,551                            | —                            | 4,551             |
| Profit for the year  | —                         | —                               | —                                | 95,392                       | 95,392            |
| At 31 March 2011 and 1 April 2012                          | 56,097                    | 82,180                          | 5,836                            | 98,883                       | 242,996           |
| Dividend paid in respect of the previous year (note 13(b)) | —                         | —                               | —                                | (96,600)                     | (96,600)          |
| Profit for the year  | —                         | —                               | —                                | 33,871                       | 33,871            |
| <b>At 31 March 2012</b>                                    | <b>56,097</b>             | <b>82,180</b>                   | <b>5,836</b>                     | <b>36,154</b>                | <b>180,267</b>    |

|   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|------------------|------------------|
| Retained profits of the Company comprise: |                  |                  |
| Proposed final dividend (note 13(a))      | 33,810           | 96,600           |
| Retained profits after proposed dividend  | 2,344            | 2,283            |
| Total retained profits                    | 36,154           | 98,883           |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 37. SHARE-BASED EMPLOYEE COMPENSATION

The Company has a share option scheme (the "Scheme") which was adopted on 24 September 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and consultants and advisers to the Group (subject to the eligibility requirements) to take up options to subscribe for shares of the Company representing up to a maximum of 10% of the shares in issue at the date of approval of the Scheme. For the options granted to vest, persons eligible to participate in this Scheme have to remain employed during the vesting period. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of the grant and average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vested are exercisable within a period of five years from date of grant. Each option gives the holder the right to subscribe for one share. The grantee shall pay HK\$1 to the Company by way of consideration for the grant.

As at 31 March 2012, total number of securities available for issue under the Scheme is 160,500,000 (2011: 160,500,000), which represents 10% of the issued share capital of the Company as at 26 August 2008, the date of approval of the refreshment of the maximum number of the shares which may be issued upon the exercise of all the share options to be granted under the Scheme and such other schemes of the Company, which initially shall not in aggregate exceed 10% of the shares in issue at the date of the approval of the Scheme by the shareholders and thereafter, if refreshed shall not exceed 10% of the shares in issue as at the date of approval of refreshed limit by shareholders of the Company.

Details of the share options granted by the Company pursuant to the Scheme and the options outstanding as at 31 March 2012 and 2011 are as follows:

### For the year ended 31 March 2012

|                                       | Date of grant | Exercisable period       | Balance at 01/04/2011<br><i>Number of options</i> | Granted during the year<br><i>Number of options</i> | Exercised during the year<br><i>Number of options</i> | Balance at 31/03/2012<br><i>Number of options</i> | Weighted average exercise price<br><i>HK\$</i> | Exercise date |
|---------------------------------------|---------------|--------------------------|---|---|---|---|--|---------------|
| <b>Executive directors</b>            |               |                          |   |   |   |   |  |               |
| Mr. Lau Kin Tung                      | 14/04/2008    | 14/04/2008 to 13/04/2013 | 15,000,000  | —   | —   | 15,000,000  | 0.180  | N/A           |
|                                       | 19/10/2010    | 19/10/2010 to 18/10/2015 | 15,000,000  | —   | —   | 15,000,000  | 0.580  | N/A           |
| <b>Employee/Consultant<br/>(note)</b> |               |                          |   |   |   |   |  |               |
| In aggregate                          | 17/02/2011    | 17/02/2011 to 16/02/2016 | 3,000,000   | —   | —   | 3,000,000   | 0.520  | N/A           |
| <b>At 31 March 2012</b>               |               |                          | <b>33,000,000</b>                                 | <b>—</b>  | <b>—</b>  | <b>33,000,000</b>                                 | <b>0.390</b>                                   |               |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 37. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

For the year ended 31 March 2011

|                                       | Date of grant | Exercisable period       | Balance at 01/04/2010<br>Number of options | Granted during the year<br>Number of options | Exercised during the year<br>Number of options | Balance at 31/03/2011<br>Number of options | Weighted average exercise price<br>HK\$ | Exercise date |
|---------------------------------------|---------------|--------------------------|--|--|--|--|---|---------------|
| <b>Executive directors</b>            |               |                          |  |  |  |  |   |               |
| Mr. Lau Kin Tung                      | 14/04/2008    | 14/04/2008 to 13/04/2013 | 15,000,000                                 | —  | —  | 15,000,000                                 | 0.180                                   | N/A           |
|                                       | 19/10/2010    | 19/10/2010 to 18/10/2015 | —  | 15,000,000                                   | —  | 15,000,000                                 | 0.580                                   | N/A           |
| <b>Employee/Consultant<br/>(note)</b> |               |                          |  |  |  |  |   |               |
| In aggregate                          | 17/02/2011    | 17/02/2011 to 16/02/2016 | —  | 3,000,000                                    | —  | 3,000,000                                  | 0.520                                   | N/A           |
| At 31 March 2011                      |               |                          | 15,000,000                                 | 18,000,000                                   | —  | 33,000,000                                 | 0.390                                   |               |

Note:

These options were granted to an employee on 17 February 2011. That employee subsequently became a consultant of the Group in June 2011.

All share-based employee compensation will be settled in equity. The share options outstanding as at 31 March 2012 had weighted average exercise prices of HK\$0.39 (2011: HK\$0.39) and a weighted average remaining contractual life of 2.44 years (2011: 3.44 years).

During the year, no share option was granted by the Group and accordingly, no consideration was received and no share-based payment expense was recognised in profit or loss for the year. For the year ended 31 March 2011, total consideration of HK\$2 was received by the Group from the grantees for taking up the options and in total, share-based payment expense of HK\$4,551,000 was recognised in profit or loss with the corresponding amount recognised in share option reserve in equity.

As at 31 March 2012, total number of shares available for issue upon exercise of share options granted under the Scheme was 33,000,000 (2011: 33,000,000), representing approximately 2.0% (2011: 2.0%) of the issued share capital of the Company at that date.

The following significant assumptions were used to derive the fair values of the share options, using the Binomial Option Pricing Model:

| Share options granted on                        | 19 October 2010 | 17 February 2011 |
|---|-----------------|------------------|
| Share price                                     | HK\$0.58        | HK\$0.51         |
| Exercise price                                  | HK\$0.58        | HK\$0.52         |
| Expected volatility                             | 71%             | 71%              |
| Expected option life (year)                     | 5               | 5                |
| Weighted average annual risk-free interest rate | 1.23%           | 2.01%            |
| Expected dividend yield                         | 4.12%           | 4.12%            |
| Suboptimal exercise factor                      | 2.20            | 2.20             |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 37. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

The expected volatility was determined with reference to the historical volatility of the Company's share prices. It is assumed that the volatility is constant throughout the option life. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. Risk-free interest rate was determined with reference to the yield of Exchange Fund Notes as at the grant date.

## 38. COMMITMENTS

### (a) Operating lease commitments

At the reporting date, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

#### Group

|                                 | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year                   | 1,260            | 2,881            |
| After 1 year but within 5 years | 62               | 1,160            |
|                                 | <b>1,322</b>     | <b>4,041</b>     |

The Group leases a number of properties under operating leases. The leases run for periods from one year to two years (2011: one year to two years). None of the leases include contingent rentals.

#### Company

As at 31 March 2012, the Company does not have any operating lease commitment (2011: Nil).

### (b) Operating lease arrangements

At 31 March 2012, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

#### Group

|                                 | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year                   | 840              | —                |
| After 1 year but within 5 years | 700              | —                |
|                                 | <b>1,540</b>     | <b>—</b>         |

During the year, the Group leased its investment property (note 19) to an associate under operating lease arrangements which run for an initial period of 2 years.

#### Company

As at 31 March 2012, the Company does not have any minimum lease receipts under non-cancellable operating leases (2011: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 38. COMMITMENTS (Continued)

### (c) Capital commitments

At the reporting date, outstanding capital commitments not provided for in the financial statements were as follows:

#### Group

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Contracted but not provided for:               |                  |                  |
| — acquisition of property, plant and equipment | 65,921           | 7,647            |

#### Company

As at 31 March 2012, the Company does not have any significant capital commitment (2011: Nil).

## 39. RELATED PARTY TRANSACTIONS — GROUP

Save as disclosed in note 33(a) and elsewhere in the financial statements, the Group had the following significant transactions with related parties:

### (a) Related party transactions:

|  | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Recurring:</b>  |       |                  |                  |
| Sales of goods:  |       |                  |                  |
| — Yunnan Pharmaceutical and Industrial Corporation Limited ("Yunnan Pharmaceutical") | (i)   | —                | 15,203           |
| — KJP Group  | (ii)  | 31,639           | —                |
| Purchase of goods:   |       |                  |                  |
| — KJP  | (ii)  | 27,614           | —                |
| — JJRP   | (ii)  | 9,748            | —                |
| Loan interest received:  |       |                  |                  |
| — KJP  | (ii)  | 175              | —                |
| — YJPL   | (ii)  | 236              | —                |
| Rentals received:  |       |                  |                  |
| — Jida Pharm (HK)  | (iii) | 210              | —                |
| Rentals paid:  |       |                  |                  |
| — Mr. Lau Yau Bor  | (iv)  | 720              | 710              |
| — Jiwa Investment Limited  | (v)   | 2,040            | 2,005            |



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 39. RELATED PARTY TRANSACTIONS — GROUP *(Continued)*

### (a) Related party transactions: *(Continued)*

Notes:

- (i) Yunnan Pharmaceutical is the non-controlling shareholder of KJP, a former subsidiary of the Group and an associate of the Group since 30 March 2011.
- (ii) KJP Group comprises KJP, JJRP, YJPL and Jida HK. KJP, JJRP and YJPL are former subsidiaries of the Group. They became associates of the Group since 30 March 2011.
- (iii) Jida Pharm (HK) is an associate of the Group.
- (iv) A director of the Company, Mr. Lau Yau Bor, leased certain properties to the Group.
- (v) Jiwa Investment Limited, which is controlled by Mr. Lau Yau Bor and Madam Chan Hing Ming, the directors of the Company, leased certain staff quarters and office premises to the Group.

- (b) During the year, the Group had issued irrevocable corporate guarantee in respect of a loan in a sum of HK\$117 million made by Nanyang Commercial Bank, Ltd (“Nanyang Bank”) to KJP, an associate of the Group. The Group is entitled to receive handling fee of HK\$936,000 per annum (being calculated as 0.8% of the total amount of the guarantee).

As at 31 March 2012, the aggregate amount of corporate guarantee issued by the Group to banks with respect of bank borrowings of its associates was HK\$150,323,000 (2011: HK\$38,630,000) (note 40).

- (c) During the 3-month period ended 31 March 2012, the Group assisted its associate, KJP Group, to carry out a pharmaceutical trading business pending the approval of various licences application required to carry on such business.

### (d) Balance with related parties

As at 31 March 2012, amount due from a director amounted to HK\$155,000 (2011: Nil), which was included in “Deposits, prepayments and other receivables” in the consolidated financial position. The balance is unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 39. RELATED PARTY TRANSACTIONS — GROUP (Continued)

### (e) Compensation of key management personnel

Remuneration of directors and other members of key management during the year are as follows:

|   | 2012         | 2011          |
|---|--------------|---------------|
|   | HK\$'000     | HK\$'000      |
| Fees, salaries, other allowances and benefits in kind | 3,602        | 3,629         |
| Discretionary bonus                                   | 310          | 150           |
| Rentals for directors                                 | 1,920        | 1,900         |
| Share-based employee compensation                     | —            | 4,551         |
| Contribution to defined contribution plans            | 38           | 48            |
|   | <b>5,870</b> | <b>10,278</b> |

## 40. GUARANTEE

### Group

As at 31 March 2012, the Group has issued corporate guarantees to banks amounting to approximately HK\$150,323,000 (2011: HK\$38,630,000) with respect to banking facilities granted by banks to its associates. As at 31 March 2012, the outstanding balances of the bank borrowings were HK\$33,323,000 (2011: HK\$38,630,000).

### Company

As at 31 March 2012, the Company has issued corporate guarantees to banks amounting to approximately HK\$919,381,000 (2011: HK\$716,446,000) with respect to banking facilities granted by banks to its subsidiaries and associates. As at 31 March 2012, the outstanding balances of the bank borrowings were HK\$289,394,000 (2011: HK\$174,135,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 41. DISPOSAL OF SUBSIDIARIES

As referred to in note 11, on 30 March 2011, the Group's subsidiaries, namely KJP, JJRP and YJPL (or KJP Group), which are engaged in the manufacturing, trading and distributions of pharmaceutical products, became the Group's associates. Net assets of these three subsidiaries at 30 March 2011, in aggregate, were as follows:

|  | 2011<br>HK\$'000 |
|--|------------------|
| Property, plant and equipment ( <i>note 17</i> )   | 238,811          |
| Land use rights ( <i>note 18</i> )   | 31,022           |
| Construction in progress ( <i>note 20</i> )  | 46,263           |
| Deferred tax assets, net ( <i>note 34</i> )  | 73               |
| Goodwill   | 9,066            |
| Intangible assets ( <i>note 23</i> )   | 5,619            |
| Inventories  | 75,161           |
| Trade and other receivables  | 168,810          |
| Cash and cash equivalents  | 299,260          |
| Bank borrowings  | (93,507)         |
| Trade and other payables   | (346,888)        |
| Amount due from/(to) related companies   | (61,353)         |
| Tax payable  | (495)            |
| Net assets disposed of   | 371,842          |
| Non-controlling interests  | (83,359)         |
| Release of translation reserve upon disposal of subsidiaries                               | (32,228)         |
| Distribution of profits before disposal of subsidiaries                                    | (64,811)         |
| Fair value of Profit guarantee ( <i>note 33(a)</i> )                                       | 28,882           |
| Fair value of Put option ( <i>note 33(b)</i> )   | 77,956           |
|  | 298,282          |
| Expenses directly attributable to disposal of subsidiaries                                 | 1,380            |
| Gain on disposal of subsidiaries ( <i>note 11</i> )  | 209,150          |
| Total  | 508,812          |
| Satisfied by:  |                  |
| Cash consideration   | 117,765          |
| Fair value of equity interest in KJP Group held before<br>30 March 2011 ( <i>note 22</i> ) | 391,047          |
|  | 508,812          |
| Net cash outflow arising on disposal   | —                |
| Cash consideration   | —                |
| Cash and bank balances disposed of   | (299,260)        |
| Net outflow of cash and cash equivalents   | (299,260)        |

The Group disposed of its entire equity interest in JJRP and YRPL to its former subsidiary KJP for a cash consideration of RMB64,600,000 (equivalent to HK\$76,000,000) and RMB35,500,000 (equivalent to HK\$41,765,000) respectively. As at 31 March 2011, these amounts had not been received and were included in "Deposits, prepayments and other receivables" in the consolidated statement of financial position (note 26(b)).

During the year, the consideration has been received in full.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk and interest risk), price risk, credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the directors of the Company. Overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long-term financial investments are managed to generate lasting returns with acceptable risk levels.

The finance department works under the financial risk management policies approved by the directors of the Company. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the directors of the Company.

### (a) Categories of financial assets and liabilities by category

The carrying amounts presented in the statements of financial positions relate to the following categories of financial assets and financial liabilities.

|   | Group    |          | Company  |          |
|---|----------|----------|----------|----------|
|   | 2012     | 2011     | 2012     | 2011     |
|   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Financial assets</b>                                     |          |          |          |          |
| Loans and receivables:                                      |          |          |          |          |
| Accounts receivable   | 59,126   | 71,431   | —        | —        |
| Deposits and other receivables                              | 14,861   | 152,475  | —        | —        |
| Amounts due from associates                                 | 50,011   | 146,172  | —        | —        |
| Amounts due from subsidiaries                               | —        | —        | 113,345  | 176,580  |
| Pledged bank deposits                                       | 90,008   | 76,455   | —        | —        |
| Cash and cash equivalents                                   | 58,532   | 9,506    | 538      | 135      |
| Financial assets at fair value through profit or loss:      |          |          |          |          |
| — <i>Held for trading:</i>                                  |          |          |          |          |
| Derivative financial instrument                             | 4,019    | 1,291    | —        | —        |
| — <i>Designated upon initial recognition</i>                |          |          |          |          |
| Treasury products at fair value through profit or loss      | 161,032  | —        | —        | —        |
|   | 437,589  | 457,330  | 113,883  | 176,715  |
|   |          |          |          |          |
|   | Group    |          | Company  |          |
|   | 2012     | 2011     | 2012     | 2011     |
|   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Financial liabilities</b>                                |          |          |          |          |
| Financial liabilities measured at amortised costs:          |          |          |          |          |
| Bank borrowings   | 256,071  | 135,505  | —        | —        |
| Accounts and bills payable                                  | 4,992    | 20,256   | —        | —        |
| Amounts due to an associate                                 | —        | 3,000    | —        | —        |
| Accrued expenses and other payables                         | 5,442    | 15,257   | 3        | 3        |
| Financial liabilities at fair value through profit or loss: |          |          |          |          |
| — <i>Held for trading:</i>                                  |          |          |          |          |
| Fair value of Profit guarantee                              | —        | 28,882   | —        | —        |
| Fair value of Put option                                    | 53,704   | 77,956   | —        | —        |
|   | 320,209  | 280,856  | 3        | 3        |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Foreign currency risk

#### (i) Transactions in foreign currencies and the Group's risk management policies

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in RMB, Euro ("EUR") and US\$. These are not the functional currencies of the group entities to which these transactions relate. As HK\$ is pegged to US\$, the Group does not have any significant exposure to currency risk resulting from transactions conducted in US\$. The Group reviews its foreign currency exposure regularly and will consider hedging significant foreign currency exposure should the need arise.

To mitigate the Group's exposure to foreign currency risk, cash flows in foreign currencies are monitored and forward foreign exchange contracts and other derivative instruments are entered into in accordance with the Group's risk management policies. The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

#### (ii) Summary of exposure

Foreign currency denominated financial assets and liabilities, translated into HK\$ at the closing rates, are as follows:

|  | 2012     |          |          | 2011      |          |          |
|--|----------|----------|----------|-----------|----------|----------|
|  | RMB      | US\$     | EUR      | RMB       | US\$     | EUR      |
|  | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000  | HK\$'000 | HK\$'000 |
| Accounts receivable  | 54,944   | —        | 4,073    | 69,885    | 312      | 1,065    |
| Deposits and other receivables   | 12,141   | —        | —        | 140,687   | —        | 245      |
| Amounts due from/(to)  |          |          |          |           |          |          |
| associates   | 27,267   | —        | —        | 146,172   | —        | —        |
| Pledged bank deposits  | 90,008   | —        | —        | 76,455    | —        | —        |
| Cash and cash equivalents  | 25,293   | 2,894    | 5,219    | 764       | 1,342    | 944      |
| Bank borrowings  | —        | (94,251) | —        | —         | (26,998) | —        |
| Derivative financial liabilities   | (53,704) | —        | —        | (106,838) | —        | —        |
| Accounts and bills payable   | —        | —        | (4,992)  | —         | (3,528)  | (12,892) |
| Other payables   | —        | —        | —        | (972)     | (758)    | —        |
| Net exposure arising from<br>recognised financial assets/<br>(liabilities) | 155,949  | (91,357) | 4,300    | 326,153   | (29,630) | (10,638) |

During the year, the Group has entered into foreign currency forward contracts to mitigate foreign currency exposure arising from RMB against HK\$ or US\$. As at 31 March 2012, the notional amount of these outstanding foreign currency forward contracts was HK\$93,862,000 (2011: HK\$78,544,000).

The Company did not have any significant exposure to foreign currencies at the reporting date (2011: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Foreign currency risk (Continued)

#### (iii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 3% and 2% (2011: 3% and 2%) appreciation in the group entities' functional currencies against RMB and EUR respectively. These percentages are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

Sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

|  | 2012     |          | 2011     |          |
|--|----------|----------|----------|----------|
|  | RMB      | EUR      | RMB      | EUR      |
|  | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit for the year and retained profits | (1,764)  | (59)     | (8,330)  | 174      |

An 3% and 2% depreciation in the group entities' functional currencies against RMB and EUR respectively would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 March 2011.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

### (c) Interest rate risk

#### (i) Exposures to interest rate risk and the Group's risk management policies

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings. These borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group reviews whether bank borrowings bearing floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The interest rates and repayment terms of bank borrowings and cash and bank balances of the Group are disclosed in notes 31 and 29 respectively. The directors of the Company monitor interest rate change exposure and will consider hedging significant interest rate exposure should the need arise. The policies to management interest rate risk have been consistently applied by the Group and are considered to be effective.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Interest rate risk (Continued)

#### (ii) Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of +/-1% (2011: +/-1%), with effect from the beginning of the year. The calculations are based on the Group's financial assets and liabilities held at the reporting date. All other variables are held constant.

|                    | 2012                       |  |   |                            | 2011  |  |
|--------------------|----------------------------|--|---|----------------------------|---|--|
|                    | Change in<br>interest rate | Increase/<br>(Decrease)<br>in profit<br>for the year<br>HK\$'000 | Increase/<br>(Decrease)<br>in retained<br>profits<br>HK\$'000 | Change in<br>interest rate | Increase/<br>(Decrease)<br>profit for<br>the year<br>HK\$'000 | Increase/<br>(Decrease)<br>retained<br>profits<br>HK\$'000 |
| Borrowings in HK\$ | +1%                        | (1,321)  | (1,321)   | +1%                        | (1,085)   | (1,085)  |
|                    | -1%                        | 1,321  | 1,321   | -1%                        | 1,085   | 1,085  |
| Borrowings in US\$ | +1%                        | —  | —   | +1%                        | (270)   | (270)  |
|                    | -1%                        | —  | —   | -1%                        | 270   | 270  |

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date. The sensitivity analysis included in the financial statements of the year ended 31 March 2011 has been prepared on the same basis.

### (d) Other price risk

#### (i) Exposures to other price risk and the Group's risk management policies

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices in respect of its investments in unlisted securities, which are classified as treasury products at fair value through profit or loss.

To manage its market risk arising from these investments, the Group maintains a portfolio of investments with different risk and return profile and will consider hedging the risk exposure should the need arise.

#### (ii) Sensitivity analysis

As at 31 March 2012, if the prices had increased/(decreased) by 1% and all other variables were held constant, the Group's profit for the year and retained profits would have increased/(decreased) by approximately HK\$1,345,000.

Sensitivity analysis has been determined assuming that the price change had occurred at the reporting date and has been applied to the Group's investments in treasury products on that date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (e) Credit risk

#### (i) Summary of exposure

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from credit terms granted to its customers in the ordinary course of its operations and its investing activities. The Group is also exposed to credit risk arising from the provision of financial guarantees and the amounts of which are disclosed in note 40.

#### (ii) Risk management objective and policies

The Group limits its exposure to credit risk by rigorously selecting the counterparties. Credit risk on cash and cash equivalents is mitigated as cash is deposited in banks of high credit rating. Credit risk on receivables is minimised as the Group performs ongoing evaluation on the financial condition of its debtors and tightly monitors the ageing of its receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverability of receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

As disclosed in note 6, a significant portion of Group's sales are made to several major customers. These customers made continuous settlements with the Group and therefore, management believes that the credit risk on the amounts due is minimal. The remaining amount of accounts and bills receivable is attributable to a number of counterparties and customers and therefore, the Group has no significant concentration of credit risk on the remaining amounts.

The Group adopts conservative investment strategies. Investment decisions and guarantees to non-group entities have to be approved by the directors of the Company. For investments in treasury products, only issuers and/or brokers with high credit rating would be considered.

The credit and investment policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

### (f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group is exposed to liquidity risk in respect of settlement of accounts payable, other payables as well as its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and long term.

The Group manages its liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands, on a day to day and week to week basis, as well as on the basis of a rolling 30 day projection. Long-term liquidity needs for a 90-day and 180-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

The Group maintains cash and short-term bank deposits to meet its liquidity requirements for 30 day periods at a minimum. Funding for longer-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell longer-term financial assets.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Liquidity risk (Continued)

The liquidity policies have been consistently applied by the Group and are considered to have been effective in managing liquidity risks.

Analysed below is the Group's and Company's remaining contractual maturities for its non-derivative financial liabilities and derivative financial liabilities as at 31 March 2012 and 2011. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group and the Company can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group and the Company is committed to pay.

Specifically, for term-loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group and the Company can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

The analysis is based on the undiscounted cash flows of the financial liabilities.

At 31 March 2012

|                                      | On demand      | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Contractual undiscounted cash flow | Carrying amount |
|--------------------------------------|----------------|------------------|-----------------------|-----------------------|------------------------------------|-----------------|
|                                      | HK\$'000       | HK\$'000         | HK\$'000              | HK\$'000              | HK\$'000                           | HK\$'000        |
| <b>Group</b>                         |                |                  |                       |                       |                                    |                 |
| <b>Non-derivatives</b>               |                |                  |                       |                       |                                    |                 |
| Bank borrowings                      | 256,071        | —                | —                     | —                     | 256,071                            | 256,071         |
| Accounts and bills payable           | —              | 4,992            | —                     | —                     | 4,992                              | 4,992           |
| Accrued expenses and other payables  | 5,442          | —                | —                     | —                     | 5,442                              | 5,442           |
|                                      | <b>261,513</b> | <b>4,992</b>     | <b>—</b>              | <b>—</b>              | <b>266,505</b>                     | <b>266,505</b>  |
| <b>Derivatives</b>                   |                |                  |                       |                       |                                    |                 |
| Derivative financial liabilities     | —              | —                | —                     | 498,083               | 498,083                            | 54,704          |
| <b>Financial guarantees issued</b>   |                |                  |                       |                       |                                    |                 |
| Maximum amount guaranteed (note (a)) | 150,323        | —                | —                     | —                     | 150,323                            | —               |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Liquidity risk (Continued)

At 31 March 2012 (Continued)

| On demand | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Contractual undiscounted cash flow | Carrying amount |
|-----------|------------------|-----------------------|-----------------------|------------------------------------|-----------------|
| HK\$'000  | HK\$'000         | HK\$'000              | HK\$'000              | HK\$'000                           | HK\$'000        |

#### Company

Accrued expenses and other payables

|   |   |   |   |   |   |
|---|---|---|---|---|---|
| 3 | — | — | — | — | 3 |
|---|---|---|---|---|---|

#### Financial guarantees issued

Maximum amount guaranteed (note (a))

|         |   |   |   |         |   |
|---------|---|---|---|---------|---|
| 919,381 | — | — | — | 919,381 | — |
|---------|---|---|---|---------|---|

At 31 March 2011

| On demand | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Contractual undiscounted cash flow | Carrying amount |
|-----------|------------------|-----------------------|-----------------------|------------------------------------|-----------------|
| HK\$'000  | HK\$'000         | HK\$'000              | HK\$'000              | HK\$'000                           | HK\$'000        |

#### Group

##### Non-derivatives

|                                     |         |        |   |   |         |         |
|-------------------------------------|---------|--------|---|---|---------|---------|
| Bank borrowings                     | 138,224 | —      | — | — | 138,224 | 135,505 |
| Accounts and bills payable          | —       | 20,256 | — | — | 20,256  | 20,256  |
| Accrued expenses and other payables | 15,257  | —      | — | — | 15,257  | 15,257  |
| Amounts due to an associate         | 3,000   | —      | — | — | 3,000   | 3,000   |
|                                     | 156,481 | 20,256 | — | — | 176,737 | 174,018 |

##### Derivatives

|                                  |   |        |   |         |         |         |
|----------------------------------|---|--------|---|---------|---------|---------|
| Derivative financial liabilities | — | 33,457 | — | 474,644 | 508,101 | 106,838 |
|----------------------------------|---|--------|---|---------|---------|---------|

#### Financial guarantees issued

|                                      |        |   |   |   |        |   |
|--------------------------------------|--------|---|---|---|--------|---|
| Maximum amount guaranteed (note (a)) | 38,630 | — | — | — | 38,630 | — |
|--------------------------------------|--------|---|---|---|--------|---|

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Liquidity risk (Continued)

At 31 March 2011 (Continued)

|   | On<br>demand<br>HK\$'000 | Less than<br>1 year<br>HK\$'000 | Between 1<br>and 2 years<br>HK\$'000 | Between 2<br>and 5 years<br>HK\$'000 | Contractual<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|---|--------------------------|---------------------------------|--------------------------------------|--------------------------------------|--|--------------------------------|
| <b>Company</b>                          |                          |                                 |                                      |                                      |  |                                |
| Accrued expenses and<br>other payables  | 3                        | —                               | —                                    | —                                    | 3  | 3                              |
| <b>Financial guarantees issued</b>      |                          |                                 |                                      |                                      |  |                                |
| Maximum amount<br>guaranteed (Note (a)) | 716,446                  | —                               | —                                    | —                                    | 716,446  | —                              |

Note:

- (a) Contractual financial guarantees provided by the Group and the Company are disclosed in note 40. As assessed by the directors, it is not probable that the banks would claim the Group and the Company for losses in respect of the guarantee contracts as it not probable that the subsidiaries and associates would default repayment of bank borrowings. Accordingly, no provision for the Group's and the Company's obligations under the guarantees has been made. The contractual maturity of these financial guarantees is "on demand".

The following table summarises the maturity analysis of term loans with repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's and the Company's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity analysis of term loans subject to a repayment on demand clause based on scheduled repayments is as follows:

|                      | Total<br>undiscounted<br>cash flows<br>HK\$'000 | On<br>Demand<br>HK\$'000 | Less than<br>1 year<br>HK\$'000 | Between 1<br>and 2 years<br>HK\$'000 | Between 2<br>and 5 years<br>HK\$'000 |
|----------------------|---|--------------------------|---------------------------------|--------------------------------------|--------------------------------------|
| <b>Group</b>         |   |                          |                                 |                                      |                                      |
| <b>31 March 2012</b> | <b>257,810</b>                                  | <b>—</b>                 | <b>167,246</b>                  | <b>85,253</b>                        | <b>5,311</b>                         |
| 31 March 2011        | 138,224   | 33,121                   | 85,095                          | 6,699                                | 13,309                               |

The Company did not have any term loans subject to repayment on demand clause as at 31 March 2012 and 2011.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (g) Fair value measurements recognised in the statement of financial position — Group

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

|   | 2012     |          |          |          |
|---|----------|----------|----------|----------|
|   | Level 1  | Level 2  | Level 3  | Total    |
|   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Assets</b>   |          |          |          |          |
| Financial assets at fair value through profit or loss                 |          |          |          |          |
| — Held for trading:   |          |          |          |          |
| Interest rate swap and foreign currency forward contracts (note (ii)) | —        | 4,019    | —        | 4,019    |
| — Designated upon initial recognition:                                |          |          |          |          |
| Treasury products at fair value through profit or loss (note (i))     | —        | 161,032  | —        | 161,032  |
| <b>Liabilities</b>  |          |          |          |          |
| Financial liabilities at fair value through profit or loss            |          |          |          |          |
| — Held for trading:   |          |          |          |          |
| Put option (note (iii))   | —        | —        | (53,704) | (53,704) |
|   | —        | 165,051  | (53,704) | 111,347  |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 42. FINANCIAL RISK MANAGEMENT (Continued)

### (g) Fair value measurements recognised in the statement of financial position — Group (Continued)

|   | 2011    |          |           |           |
|---|---------|----------|-----------|-----------|
|   | Level 1 | Level 2  | Level 3   | Total     |
|   | HK'000  | HK\$'000 | HK\$'000  | HK\$'000  |
| <b>Assets</b>   |         |          |           |           |
| Financial assets at fair value through profit or loss                 |         |          |           |           |
| — Held for trading:   |         |          |           |           |
| Interest rate swap and foreign currency forward contracts (note (ii)) | —       | 1,291    | —         | 1,291     |
| <b>Liabilities</b>  |         |          |           |           |
| Financial liabilities at fair value through profit or loss            |         |          |           |           |
| — Held for trading:   |         |          |           |           |
| Profit guarantee and put option (note (iii))                          | —       | —        | (106,838) | (106,838) |
|   | —       | 1,291    | (106,838) | (105,547) |

Notes:

- The treasury products are unlisted securities not traded on active markets. The fair value of these products is determined by with reference to valuations provided by the banks and valuations assessed by independent professional valuers using valuation techniques that maximise the use of observable market inputs (i.e. market currency and interest rates (Level 2)).
- The derivatives entered into by the Group and included in Level 2 consist of interest rate swap and foreign currency forward contracts. These are not traded on active markets. The fair values of such contracts are estimated using a valuation technique that maximises the use of observable market inputs (i.e. market currency and interest rates (Level 2)).
- The Group's financial assets classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level are reconciled from opening to closing balances as follows:

|  | 2012      | 2011      |
|--|-----------|-----------|
|  | HK\$'000  | HK\$'000  |
| <b>Derivative financial liabilities</b>                |           |           |
| Opening balance  | (106,838) | —         |
| Other adjustments (note 33(a))                         | 25,593    | —         |
| Gain on derecognition of Profit guarantee (note 33(a)) | 3,289     | —         |
| Fair value gain on Put option (note 33(b))             | 24,252    | (106,838) |
| Closing balance  | (53,704)  | (106,838) |

There have been no transfers into or out of Level 3 in the reporting period.

For the year ended 31 March 2012, fair value gain on Profit guarantee of HK\$3,289,000 was recognised in profit or loss and included in "Other gains/(losses) — Gain on derecognition of Profit guarantee" (note 33(a)). In addition, fair value gain on Put option of HK\$24,252,000 was recognised in profit or loss and included in "Other gains/(losses) — Fair value gain on Put option" (note 33(b)).

For the year ended 31 March 2011, fair value loss on derivative financial liabilities in relation to Profit guarantee and Put option of HK\$28,882,000 and HK\$77,956,000 were recognised in profit or loss and included in "Gain on disposal of subsidiaries" (note 41).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 43. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group monitors its capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristic of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares, raise new debt financing or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2012 and 2011.

The Group monitors capital using gearing ratio, which is net debt divided by total equity. Net debt is calculated as bank borrowings less cash and cash equivalents and pledged bank deposits as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at the reporting date were as follows:

|                                 | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Bank borrowings                 | 256,071          | 135,505          |
| Less: Cash and cash equivalents | (58,532)         | (9,506)          |
| Less: Pledged bank deposit      | (90,008)         | (76,455)         |
| Net debt                        | 107,531          | 49,544           |
| Total equity                    | 604,583          | 607,350          |
| Gearing ratio                   | 18%              | 8%               |

## 44. EVENTS AFTER REPORTING DATE

- (a) In March 2012, the Company, JIL, KJP Group, and seven commercial banks (collectively referred to as "Facilities Providers") negotiated and planned to enter into each of the seven facilities agreements (the "Facility Agreements"), which are still in the process of negotiation and finalisation subsequent to the reporting date.

Pursuant to the proposed Facilities Agreements, the Company will also enter into a facility guarantee agreement (the "Facility Guarantee") to provide corporate guarantee in respect of the banking facilities granted under the Facility Agreements (the "Banking Facilities") in favour of the Facilities Providers under each of the Facility Agreements to secure 100% of the aggregate facility amount and the interest payable from time to time up to the maximum extent of HK\$170 million under the Banking Facilities granted to the facilities borrowers, comprising the Group and KJP Group, under the Facility Agreements.

Details of the Facilities Agreements, Banking Facilities and Facility Guarantee are set out in the announcement and circular of the Company dated 19 March 2012 and 23 April 2012 respectively.

- (b) On 2 May 2012, JIL, a subsidiary of the Company, entered into a sale and purchase agreement with a landlord for acquisition of an office unit at Admiralty, Hong Kong at a consideration of HK\$20,070,000.

## FIVE YEARS FINANCIAL SUMMARY

|   | Year ended 31 March |                  |                  |                  |                  |
|---|---------------------|------------------|------------------|------------------|------------------|
|   | 2008<br>HK\$'000    | 2009<br>HK\$'000 | 2010<br>HK\$'000 | 2011<br>HK\$'000 | 2012<br>HK\$'000 |
| Revenue   |                     |                  |                  |                  |                  |
| Continuing operations                                   | 101,217             | 88,146           | 163,494          | 175,309          | 203,787          |
| Discontinued operations                                 | 216,212             | 383,943          | 472,988          | 547,297          | —                |
|   | 317,429             | 472,089          | 636,482          | 722,606          | 203,787          |
| Profit from operations                                  |                     |                  |                  |                  |                  |
| Continuing operations                                   | 33,089              | 30,922           | 27,154           | 22,225           | 37,921           |
| Discontinued operations                                 | 41,111              | 42,785           | 69,692           | 77,936           | —                |
|   | 74,200              | 73,707           | 96,846           | 100,161          | 37,921           |
| Finance costs   |                     |                  |                  |                  |                  |
| Continuing operations                                   | (1,639)             | (950)            | (693)            | (1,075)          | (3,404)          |
| Discontinued operations                                 | (2,966)             | (3,595)          | (3,118)          | (3,973)          | —                |
|   | (4,605)             | (4,545)          | (3,811)          | (5,048)          | (3,404)          |
| Share of results of associates                          |                     |                  |                  |                  |                  |
| Continuing operations                                   | (18)                | (143)            | (101)            | (94)             | 40,737           |
| Discontinued operations                                 | —                   | —                | —                | —                | —                |
|   | (18)                | (143)            | (101)            | (94)             | 40,737           |
| Profit before income tax                                |                     |                  |                  |                  |                  |
| Continuing operations                                   | 31,432              | 29,829           | 26,360           | 21,056           | 75,254           |
| Discontinued operations                                 | 38,145              | 39,190           | 66,574           | 73,963           | —                |
|   | 69,577              | 69,019           | 92,934           | 95,019           | 75,254           |
| Income tax expense                                      |                     |                  |                  |                  |                  |
| Continuing operations                                   | (4,305)             | (2,667)          | (2,484)          | (1,839)          | (4,636)          |
| Discontinued operations                                 | (7,167)             | (3,015)          | (8,864)          | (12,177)         | —                |
|   | (11,472)            | (5,682)          | (11,348)         | (14,016)         | (4,636)          |
| Profit for the year                                     |                     |                  |                  |                  |                  |
| Continuing operations                                   | 27,127              | 27,162           | 23,876           | 19,217           | 70,618           |
| Discontinued operations<br>(note)                       | 30,978              | 36,175           | 57,710           | 61,786           | —                |
|   | 58,105              | 63,337           | 81,586           | 81,003           | 70,618           |
| Attributable to   |                     |                  |                  |                  |                  |
| Equity holders  | 48,255              | 51,522           | 64,582           | 255,663          | 70,620           |
| Non-controlling interests                               | 9,850               | 11,815           | 17,004           | 19,205           | (2)              |
|   | 58,105              | 63,337           | 81,586           | 274,868          | 70,618           |
| Assets and liabilities and<br>non-controlling interests |                     |                  |                  |                  |                  |
| Total assets  | 506,222             | 651,503          | 737,786          | 905,098          | 932,953          |
| Total liabilities                                       | (165,633)           | (256,045)        | (275,286)        | (297,748)        | (328,370)        |
| Non-controlling interests                               | (45,648)            | (58,977)         | (75,981)         | 4                | 6                |
|   | 294,941             | 336,481          | 386,519          | 607,354          | 604,589          |

Note: The amount excluded gain on disposal of subsidiaries and capital gains tax on disposal of subsidiaries.