CHINANIMAL
HEALTHCARE

Corporate Profile

Based in the PRC, China Animal Healthcare Ltd. is principally engaged in the business of manufacturing, sale and distribution of animal drugs. The Group is one of the leading players in the PRC animal drugs industry with 14 proprietary product brand names for powdered form drugs, injection form drugs and biological drugs.

Our over 500 types of treatment and non-treatment animal drugs for poultry and livestock are distributed throughout the PRC directly to 32 large poultry corporations, veterinary stations in 13 provinces, autonomous regions and municipal cities and an extensive network of approximately 4,900 animal drug retailers who in turn sell to the farmers. Our range of biological drugs includes vaccines for swine fever, porcine reproductive and respiratory syndrome and animal foot-and-mouth disease which are mandatory for animals under the PRC Ministry of Agriculture's requirements. Our customer base spans across 28 provinces, municipalities and autonomous regions in China and is supported by our sales team comprising approximately 1,900 sales and technical personnel. As a value-added service, the Group also provides technical and support services to its customers, sharing our expertise in farming techniques and methodologies as well as imparting knowledge relating to animal health and treatment of animal diseases. We believe we are one of the first in the industry to provide such value-added services since 2001. The provision of these services has allowed the Group to keep in constant contact with its customers, thereby forging closer business relationships.

Our corporate headquarters is located in Beijing and we conduct our business and operations through four regional offices. We have obtained the relevant GMP certifications for all of our 17 production lines, six of which are located in Shijiazhuang, two in Shenzhou, seven in Shanxi, one in Inner Mongolia and one in Beijing.

HEADQUARTERS - Beijing

REPRESENTATIVE OFFICE
- Chengdu, Hefei, Shengyang, Shijiazhuang

PRODUCTION PLANT
- Hohhot, Shenzhou, Shangxi, Shijiazhuang

Contents

Chairman's Statement

Overall, our full year turnover increased by a commendable 30.1% to reach a record high of RMB768.1 million in FY2011. All our business segments recorded year-on-year increases in sales. It gives me pleasure to inform you that our profitability has also surged by 86.4% to RMB223.1 million, compared to RMB119.7 million a year ago.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present China Animal Healthcare Ltd.'s Annual Report and Audited Financial Statements of the Group and of the Company for the financial year ended 31 December 2011.

All things considered, I would conclude that FY2011 has been a good year for the Group. But it could have been better, to say the least. While the Group has finally commenced sales of its animal foot-and-mouth disease vaccines in the current financial year, its performance has paled in comparison to the porcine reproductive and respiratory syndrome vaccine. The increase in sales of our animal foot-and-mouth disease vaccines over the recent quarters has been heartening but we would expect a much stronger contribution from our third mandatory vaccine in production moving ahead. We remain highly buoyant on the prospects of our animal foot-and-mouth disease vaccine given our technological advantage over the other limited number of approved manufacturers of this mandatory vaccine in the PRC domestic market.

Overall, our full year turnover increased by a commendable 30.1% to reach a record high of RMB768.1 million in FY2011. All our business segments recorded year-on-year increases in sales. It gives me pleasure to inform you that our profitability has also surged by 86.4% to RMB223.1 million, compared to RMB119.7 million a year ago. Discounting the effects of the fair value gain in the derivative financial instruments and amortised interest expense relating to the convertible bonds, the adjusted net profit attributable to owners of the Company would be RMB207.4 million, representing an equally impressive 78.5% increase over the adjusted net profit of RMB116.2 million for FY2010. This remarkable increase in profitability was achieved despite a RMB47.7 million surge in the non-cash amortisation expense of intangibles in the current financial year.

2011 is the first full fiscal year after our Company is dual primary listed on both the Singapore and Hong Kong bourses. While the trading and performance of the Company's shares on the Stock Exchange of Hong Kong has been nothing more than tepid to-date, I remain confident on the long-term merits of being listed on one of Asia's leading stock markets by market capitalisation. I like to assure our shareholders that the Board of Directors is conscientiously delving into initiatives which can help to enhance our stock liquidity and maximise shareholders' value over time.

Let me move on to the outlook for the coming year. According to the National Bureau of Statistics, more Chinese citizens now live in cities than in the countryside for the first time ever. According to the figures released, 51.3% of China's population were living in urban areas by the end of 2011. This paradigm shift in the distribution of the Chinese population should have a positive impact on the Chinese economy as per capita household consumption in urban households in China is several times higher than rural household consumption. China's rapid place of urbanisation is therefore widely expected to continue to fuel growth in its domestic consumption, which has been the salve to ease the pain of its dwindling exports to the US and Europe markets. Furthermore, the Chinese government's commitment to increase social spending in its efforts to narrow the wealth gap between China's majority poor and the affluent should help spur domestic consumption. However, the fly in the ointment is the falling domestic real estate market. The property market correction is currently providing the greatest downside momentum to China's GDP growth and further sharp deceleration may bring about rippling effects on discretionary consumer spending. Signs of China's cooling economy are now more evident than ever as the country posted its slowest economic growth since the global economic meltdown in 2008 of 8.9% in the fourth quarter of 2011. Understandably, the next 12 months will be a year of complexity and challenges for the Chinese economy, with the precarious eurozone sovereign debt crisis providing plenty of drag to the global economic climate.

On the bright side, the current slowdown of the Chinese economy has thus far not affected the Group's operations significantly, as evidenced by the Group's strong set of results in the last quarter of FY2011. Management is therefore cautiously optimistic that the incumbent adversities should not derail the Group's growth momentum going into 2012. Our growth strategy over the past years has positioned the Group strongly to becoming a leading player in the PRC animal healthcare industry. Our strong financial resources will allow the Group to pursue potential acquisition opportunities within the biological drugs segment, such as, amongst others, the production licenses and permits for the production of the bird flu vaccine. In addition, our ongoing quest to export the animal foot-and-mouth disease vaccines overseas through joint ventures or OEM arrangement will ensure that FY2012 will be another eventful and purposeful year.

Lastly, I would like to extend our sincere gratitude to all our stakeholders including our customers and our business partners, who have reposed great trust in us and in our products. I will always be indebted to all our dedicated employees for supporting us in our activities and helping us grow further. My colleagues on the Board have always provided valuable guidance and support to whom I owe my sincere gratitude. Last but not least, to all our loyal shareholders and investors for your unwavering confidence and belief in the Company and its management. I urge and look forward to your continued support in the years ahead as China Animal Healthcare enters into a new phase of growth.

Wang Yangang
Executive Chairman and CEO

Operations and Financial Review

Sales

The Group has achieved total revenue of RMB768.1 million in FY2011, representing an increase of RMB177.6 million or 30.1% over revenue of RMB590.5 million earned in FY2010. The increase in revenue was mainly attributable to the surge in biological drug sales in FY2011, and augmented by the continuing strong performance in the powdered drugs segment. After a muted start in the beginning of the year, sales of biological drugs have ramped up substantially. Revenue contribution from biological drugs amounted to RMB257.3 million in FY2011, representing an increase of RMB111.7 million or 76.8% from FY2010.

Sale of porcine reproductive and respiratory syndrome ("PRRS") vaccines, swine fever vaccines and animal foot-and-mouth disease ("FMD") vaccines to provincial veterinary stations contributed RMB140.2 million, RMB33.9 million and RMB48.0 million in FY2011 respectively. Sales of PRRS vaccines and swine fever vaccines continued to show strong performance in the current year. Revenue contribution from these two vaccines has increased by RMB57.6 million or 49.4% from RMB116.5 million in FY2010 to RMB174.1 million in FY2011. FMD vaccines sales commenced in May this year, contributing RMB48.0 million to the Group's revenue. Sale of the common vaccines through the Group's network of customers amounted to RMB35.2 million in FY2011, representing an increase of RMB6.1 million or 21.0% over the RMB 29.1 million sales made in FY2010.

The powdered drugs segment has continued to post satisfactory results. Total powdered drug sales has increased by RMB64.2 million or 15.6% to RMB475.3 million in FY2011, compared to sales of RMB411.1 million in FY2010. Sales contribution from the injection form drugs segment also increased marginally in FY2011 by 5.0% as compared to FY2010. Rising poultry and pork prices due to increase in domestic consumption demand has been the key catalyst for the encouraging results from formulated drugs segment in the current year. The Group continued to capitalise on its extensive network to increase powdered and injection form drug sales to its existing customers.

Profitability

Cost of sales of the Group constituted approximately 28.4% and 24.1% of its revenue in FY2011 and FY2010, respectively. Cost of sales increased by RMB75.6 million or 53.0% from RMB142.5 million in FY2010 to RMB218.1 million in FY2011. Overall gross profit margin decreased by 4.3 percentage points from 75.9% in FY2010 to 71.6% in FY2011. The drop in gross profit margin can be in part attributed to the two new taxes, City Construction Tax ("CCT") and Education Supplementary Tax ("EST") that were introduced in November 2010. CCT and EST are computed based on 7% and 3% of Value Added Tax respectively and are included in cost of sales. These additional taxes aggregated to approximately RMB11.2 million for FY2011.

Gross profit margins for powdered form drugs and injection form drugs in FY2011 were 76.9% and 61.1% respectively, compared to 77.3% and 61.3% respectively in FY2010.The marginal fall in the gross profit margin is primarily due to new taxes as mentioned above. The gross profit margin for injection form drugs is lower as the costs of raw materials and packaging materials required in the manufacture of the injection form drugs are comparatively higher compared to those for powdered form drugs. Gross profit margin for biological drug sales decreased to 63.3% in FY2011 compared to the 75.2% achieved in FY2010. In addition to the new taxes mentioned above, the decline is also in part attributed to two other key reasons. Firstly, the PRRS vaccines sold to certain new provincial veterinary stations subsequent to the February official compulsory vaccines sales bidding exercise were set at comparatively lower prices to allow the Group to break into the new markets. Notwithstanding, the selling prices of the PRRS vaccines distributed to these new provincial veterinary stations have normalised in the subsequent bidding exercises, as evidenced by the improvement in the gross profit margin for the PRRS vaccines sales in the current quarter. In addition, production of the FMD vaccines, which commenced in 1Q2011, has yet to achieve economies of scale to-date and hence affecting the overall gross profit margin for the vaccine segment. Prices of raw materials in general have continued to remain stable in the current year.

Other operating income in FY2011 relates mainly to net foreign exchange gain. Gain on change in fair value of the derivative financial instruments amounted to RMB38.4 million in FY2011.

Selling and distribution expenses increased by RMB23.4 million or 17.7% from RMB132.3 million in FY2010 to RMB155.7 million in FY2011 due mainly to the increase in payroll expenses, transportation expenses, marketing and promotion expenses, travelling expenses and office expenses of approximately RMB13.7 million, RMB1.9 million, RMB 2.5 million, RMB2.1 million and RMB2.0 million respectively. Payroll expenses increased from RMB73.7 million in FY2010 to RMB87.4 million in FY2011 due mainly to due mainly to higher sales commission paid out at the back of the 30.1% increase in sales.

Administrative expenses decreased by RMB13.0 million or 10.1% from RMB128.9 million in FY2010 to RMB115.9 million in FY2011 due mainly to the decrease in professional fees and personnel expenses and partially offset by increase in amortisation expenses of RMB47.7 million. In FY2010, several one-off expenses amounting to approximately RMB42.6 million were incurred for the Company's dual listing in Hong Kong as well as a non-cash charge of RMB19.2 million in relation to the fair value of the 13.0 million new shares issued to employees pursuant to the CAH Performance Share Scheme.

The increase in amortisation expenses from RMB16.3 million in FY2010 to RMB63.9 million in FY2011 was mainly

Operations and Financial Review

attributed to Beijing Jianxiang Hemu and Bigvet Biotech. Amortisation charges on production technology rights of PRRS and FMD vaccines began in June 2010 and March 2011 respectively. The amortisation expenses pertaining to these two vaccines amounted to RMB59.3 million in FY2011. In addition, amortisation of the seed strains purchased by Bigvet Biotech from a governmental animal disease research and development institute for the production of the FMD vaccine amounted to RMB1.2 million.

Finance costs increased by RMB14.5 million due mainly to interest expense on convertible bonds at amortised costs of RMB22.8 million in the current year, such interest costs amounted to RMB8.5 million in FY2010. Other interest expense relates mainly to working capital loans from HSBC Bank (China) Company Limited amounting to RMB78.0 million as at 31 December 2011. The decrease in interest income of RMB0.3 million was due mainly to the interest income of RMB1.2 million recognised in 1Q2010 on the loan of RMB70.0 million made to Bigvet Biotech prior to the completion of the acquisition. There were no such interest income in FY2011.

Tax expense has increased to RMB73.2 million in FY2011. Excluding the fair value gain on the derivative financial instruments and interest expense on the convertible bonds, the Group's effective tax rate on the adjusted profit before tax would have been 25.6%. The Group's PRC subsidiaries are subject to tax at 25%. In addition, the Group has also provided for withholding tax of 10% on the portion of distributable profits derived by the PRC subsidiaries in FY2011 that is expected to be distributed out as dividend.

As a result of the foregoing, net profit for the year attributable to owners of the Company increased by RMB103.4 million or 86.4% from RMB119.7 million in FY2010 to RMB223.1 million in FY2011. Net profit attributable to non-controlling interests amounted to RMB5.8 million in FY2011.

Financial Position

As at 31 December 2011, non-current assets amounted to approximately RMB960.8 million and comprised property, plant and equipment ("PPE") of RMB199.7 million, land use rights of RMB18.8 million, intangibles of RMB736.1 million, deferred tax assets of RMB5.1 million and available-for-sale investment of RMB1.1 million.

The decrease of approximately RMB0.6 million in PPE during FY2011 was mainly attributed to depreciation charge of RMB15.4 million, PPE of RMB0.2 million being written-off and PPE of RMB0.2 million being disposed off, partially offset by PPE additions of RMB15.2 million comprising mainly improvements to buildings, additions of plant and machinery, office equipment and motor vehicles.

Land use rights amounted to RMB18.7 million as at 31 December 2011 after amortisation charge of RMB0.4 million in FY2011. These land use rights have a remaining useful lives ranging from approximately 43-48 years as at end FY2011.

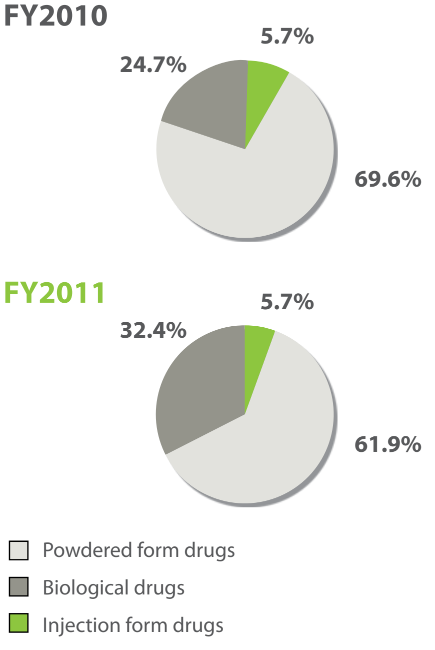
Intangibles as at 31 December 2011 comprised production technology rights of RMB601.9 million, seed strain of RMB9.6 million and goodwill on acquisition of subsidiaries of RMB124.6 million.

The acquisition of Bigvet Biotech and Beijing Jianxiang Hemu in the second quarter of FY2010 resulted in the identification of production technology rights attributable to the production of PRRS vaccines and FMD vaccines of RMB460.0 million and RMB210.0 million respectively. These production technology rights are amortised over their estimated useful life of 10 years and amortisation expenses relating to these acquired production rights amounted to RMB59.3 million in FY2011. In addition, production technology rights of Shanxi Longkeer amounted to RMB3.5 million as at 31 December 2011, after amortisation charge of RMB3.0 million in FY2011. These production technology rights have a remaining useful life of less than 2 years as at end of FY2011.

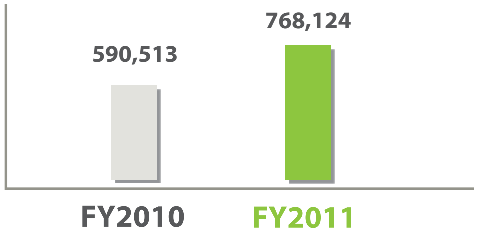
The goodwill on consolidation represents mainly the excess of the aggregate purchase consideration for Bigvet Biotech and Beijing Jianxiang Hemu of RMB498.0 million over the fair value of the net identifiable net assets acquired of RMB375.8 million. No impairment loss on the recognised goodwill is required as at 31 December 2011.

The seed strain was purchased by Bigvet Biotech from a governmental animal disease research and development institute for the production of the FMD vaccine, it amounted to RMB9.6 million after amortisation charge of RMB1.2 million.

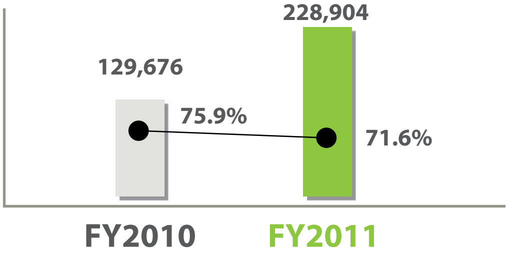
Revenue by products



Revenue (RMB'000)



Net Profit (RMB'000) **and Gross Profit Margin**



Operations and Financial Review

The available-for-sale investment relates to the Group investment of RMB1.1 million paid towards the paid-in capital of Jilin Kangda Rabbit Industry Co., Ltd. ("Jilin Kangda"), a start-up company in the business of rabbits breeding, for a 11.25% stake in the company. The key objective of this business collaboration is to secure an assured supply of rabbits for the Group at competitive prices going forward. Certain animal vaccines of the Group are produced through the lapinization of rabbits.

Current assets comprised inventories, trade receivables, other receivables, pledged deposits and cash and cash equivalents. Current assets amounted to approximately RMB871.7 million as at end of FY2011, representing an increase of RMB305.8 million over end of FY2010. The increase is mainly attributed to increases in cash and cash balances, inventories, trade receivables and other receivables of RMB241.1 million, RMB19.0 million, RMB41.0 million and RMB4.7 million, respectively in FY2011.

Cash and cash equivalents, excluding pledged deposit of RMB26.0 million amounted to approximately RMB704.2 million as at 31 December 2011. Approximately RMB196.4 million was generated from the Group's operating activities, augmented by additional cash flows of RMB23.0 million from its investing activities. Net cash from investing activities arose mainly from the increase in investment by non-controlling interests in Bigvet Biotech of RMB38.0 million and proceeds from disposal of property, plant and equipment of RMB0.2 million, partially offset by PPE purchases amounting to RMB15.2 million. Cash flows generated from financing activities amounted to RMB1.0 million. The Group repaid the RMB20.0 million working capital loan and drew down a new working capital loan of RMB78.0 million in the current year. The Company has provided a pledged deposit of RMB26.0 million on the remaining outstanding banking facility. Dividend amounting to RMB35.0 million was also paid in the current year.

Trade receivables amounted to RMB97.6 million as at 31 December 2011, representing an increase of RMB41.0 million over end of FY2010. The increase was mainly attributed to new trade receivables arising from the sale of the various compulsory vaccines to the provincial veterinary stations in FY2011 amounting to approximately RMB222.1 million. Subsequent receipts amounting to RMB78.5 million have been collected after year end.

Other receivables amounted to RMB9.8 million as at 31 December 2011, comprising mainly deposits for PPE purchases, prepayments made to raw material suppliers and security deposits for the compulsory vaccines sales bidding exercise.

The increase in inventories is mainly attributable to Shanxi Longkeer, which accounted for RMB19.5 million of vaccines respectively scheduled for delivery in the ensuing quarter. In addition, raw materials inventory has also increased to cater to the anticipated production requirements in the next quarter.

Current liabilities comprised primarily trade and other payables, borrowings, derivative financial instruments and income tax liabilities. Current liabilities as at 31 December 2011 amounted to RMB247.4 million.

Trade payables amounted to RMB17.7 million as at end of FY2011, representing an increase of RMB13.4 million over end of FY2010. Other payables decreased by RMB23.3 million to RMB25.2 million as at end of FY2011. Other payables mainly comprise accrued operating expenses of RMB14.9 million and VAT and other taxes payable amounting to RMB10.3 million.

Total borrowings as at 31 December 2011 amounted to RMB78.0 million. In anticipation of increasing working capital requirements for the production of the FMD vaccines, the Group drew down a short-term working capital loan of RMB78.0 million from the HSBC Bank (China) Company Limited in FY2011. The loan is to be repaid in full upon maturity by December 2012.

Income tax liabilities amounted to approximately RMB17.8 million as at 31 December 2011 and mainly relate to the corporate tax payable by the PRC subsidiaries on the profits for FY2011.

Derivative financial instruments of RMB109.1 million pertain to the fair value of the conversion option component of the convertible bonds issued to Blackstone at initial recognition. The conversion option derivative is measured at fair value with changes in fair values recognised in profit and loss.

Non-current liabilities amounted to RMB283.7 million as at 31 December 2011. It comprises convertible bonds and deferred tax liabilities. The liability component of the convertible bonds amounting to RMB122.3 million as at 31 December 2011 is accounted for at amortised cost using effective interest method. Deferred taxation of RMB161.3 million arose mainly from the accounting for deferred tax effects on the production technology rights identified on consolidation of Bigvet Biotech and Beijing Jianxiang Hemu. In addition, cumulative accruals for PRC withholding tax on expected dividends out of the profits derived by the PRC subsidiaries amounted to RMB10.4 million as at 31 December 2011.

The Group's total equity comprised share capital, share premium, retained earnings, other reserves and non-controlling interests. Total equity as at 1 January 2011 amounted to approximately RMB1,069.2 million. Net profit attributable to owners of the Company and non-controlling interests amounted to RMB223.1 million and RMB5.8 million in the current year respectively. Consequently, total equity increased to RMB1,301.1 million as at 31 December 2011, of which RMB1,080.6 million is attributable to owners of the Company.

Board of Directors

WANG Yangang (王彥剛), aged 52, founder of our Group, is our Chairman, CEO and Executive Director. Mr. Wang established our Group in 1996 and was appointed as our Company's Director on 31 December 2007. Mr. Wang is also a director of our various subsidiaries, namely, Evanton, Bigvet Biotech and Shanxi Longkeer. He has 24 years of experience in the animal drug industry. Mr. Wang is responsible for the strategic planning and overall management and operations of our Group. He also oversees our R&D activities. Prior to establishing our Group, he was a researcher and head of marketing of the Beijing Science Committee Experimental Animal Research Centre (北京科學技術研究院實驗動物研究中心) from 1986 to 1996. He obtained a Bachelor's degree in veterinary medicine from Hebei Agriculture University (河北農業大學) in 1983 and a Master's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1986.

SUN Jinguo (孫金國), aged 37, who joined the Group in 1999, is our Deputy CEO and Executive Director. Mr. Sun was appointed as our Director on 31 December 2007. He assists the CEO in the overall management and operations of our Group. He is also responsible for, inter alia, corporate development work focusing on new business ventures, mergers and acquisitions, feasibility studies and public relations of our Group. Mr. Sun is also a director of our various subsidiaries, namely, Beijing Healthcare, Shijiazhuang Maidisenda, Shijiazhuang Lixinkang, Shijiazhuang Greenxinkang, Hebei Qingshanhong, Shijiazhuang Keruida, Hebei Geruisi, Shijiazhuang Aoxin, Hebei Runshengzhongfu and Shijiazhuang Sikede. Mr. Sun has 12 years of experience in the animal drug industry. Prior to joining us, Mr. Sun was the regional sales manager of Hebei Kexing Animal Drugs Co. Ltd. (河北科星藥業有限公司), a company principally engaged in animal drugs and additives, from 1998 to 1999. He obtained a Bachelor's degree in agriculture from Hebei Agriculture University (河北農業大學) in 1998.

FU Shan (付山), aged 43, was appointed as our Non-executive Director on 20 August 2010. Mr. Fu is a Senior Managing Director in The Blackstone Group and is based in Beijing, and has also served as the Chief Representative of China. Prior to joining The Blackstone Group in 2008, Mr. Fu worked in the Department of Foreign Investment in China's National Development and Reform Commission（國家發展和改革委員會國外資金利用司）from 2003 to 2008, the State Economic and Trade Commission of China（國家經濟貿易委員會）from 1993 to 2003, the Office of Economic and Trade in the State Council of China（國務院經濟貿易辦公室）from 1992 to 1993, and the Office of Production in the State Council of China (國務院生產辦公室) from 1991 to 1992. He obtained a Bachelor's degree in 1988 and a Master's degree in history in 1991 both from Peking University (北京大學) in Beijing, China.

ONG Kian Guan (王建源), aged 44, was appointed as our Independent Non-executive Director on 31 December 2007. Mr Ong chairs our Audit Committee and is a member of our Remuneration Committee and Nomination Committee. He is a practising member and a fellow of the Institute of Certified Public Accountants of Singapore (the "ICPAS"), and also a partner with Baker Tilly TFW LLP. He has more than 18 years of professional experience in financial audits of multi-national corporations and public listed companies from diverse industries. His experience also includes consultancy, particularly floatation of companies, financial due diligence and outsourced internal audit assignments. He is currently an independent director and the audit committee chairman of various public companies listed on SGX-ST, namely:

- China Haida Ltd.,
- China XLX Fertiliser Ltd. (which is also listed on the Hong Kong Stock Exchange, Stock Code: 1866).

He is the chairman of the Remuneration Committee of JES International Holdings Limited. He is also a serving member of the auditing and assurance standards committee of the ICPAS. Mr. Ong obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1992.

FENG Jinglan (馮靜蘭), aged 72, was appointed as our Independent Non-executive Director on 31 December 2007. Ms. Feng chairs our Nomination Committee and is a member of our Audit Committee and Remuneration Committee. She is the honorary chairperson of the CAHPA. Prior to her appointment in the CAHPA in 2000, she was the vice head and supervisor of the Farming Bureau of the MOA (農業部畜牧獸醫局) from 1994 to 2000. From 1989 to 1994, she was the vice station head of the National Farming and Veterinary Medicine of the MOA (農業部全國畜牧獸醫總站畜牧獸醫局). From 1982 to 1989, she was the vice-division head and subsequently the division head of the Veterinary Medicine Division of the Farming Bureau of the MOA (農業部畜牧局獸醫處). From 1964 to 1982, she was employed at the veterinary division of MOA's Animal Husbandry Bureau and was responsible for technical administration. She graduated from Dongbei Agriculture College (東北農業學院) (now known as Northeast Agriculture University (東北農業大學)) in 1964.

WONG Gang (王剛), aged 41, was appointed as our Independent Non-executive Director on 31 December 2007. Mr. Wong chairs our Remuneration Committee and is a member of our Audit Committee and Nomination Committee. Mr. Wong is a partner in Shook Lin & Bok LLP, a law firm in Singapore and has worked there since 2000. He has more than 15 years of professional experience advising on a wide range of corporate finance and securities transactions, including stock market floatations, rights issues, securities regulation for public listed companies, mergers and acquisitions, joint ventures, as well as general corporate advisory work. He is also a member of Shook Lin & Bok LLP's China Practice Group and has advised multinational corporations and Singapore companies on cross-border transactions in the PRC and public offerings of securities in Singapore by companies from the PRC. Currently, he is the independent director of various companies listed on the SGX-ST, namely:

- Tianjin Zhongxin Pharmaceutical Group Corporation Limited; and
- Fujian Zhenyun Plastics Industry Co., Ltd.

Mr. Wong is also an independent director of Renewable Energy Asia Group Limited and JEP Holdings Ltd., companies listed on Catalist of the SGX-ST. He has been cited by Chambers Asia as one of the leading corporate lawyers in Singapore in capital markets. From 2000 to 2002, he was employed by Shook Lin & Bok LLP as a senior associate. From 1998 to 2000, he was employed by Ang & Partners as an associate. From 1996 to 1998, he was employed by Shook Lin & Bok LLP as an associate. From 1995 to 1996, he was a pupil at Shook Lin & Bok LLP. Mr. Wong obtained a Bachelor's degree in law (Honours) from the National University of Singapore in 1995.

Key Executives

LI Jun (李隽), aged 38, joined our Group in April 2002 and is our Group's Deputy CEO. Mr. Li assists the CEO in the overall management and operations of our Group. His responsibilities include the internal management and external liaison of administrative affairs, as well as the organisation and management of our employees and contract personnel (including recruitment, training, remuneration and salary increment). His experience prior to joining the Group include being the head of human resources for Beijing Jinyikang Technology Co., Ltd. (北京金益康公司) from 2001 to 2002, the general manager of Beijing Farm Technology Co., Ltd. (北京農標科技有限公司) from 1999 to 2001 and the human resource manager for Beijing Da Bei Nong Group (北京大北農集團) from 1996 to 1999. From 1993 to 1996, he was employed at Anhui Wuhu Foreign Trade Refrigeration Factory (安徽蕪湖外貿冷凍廠) as a production and operation personnel. Mr. Li obtained a diploma in food hygiene from Anhui Agriculture Techniques Teaching Institute (安徽農業技術師範學院) in 1993.

GOH Kay Seng Edwin (吴啟升), aged 38, joined our Group in April 2007 as our CFO and one of our Joint Company Secretaries. Mr. Goh oversees our Group's financial, accounting and tax matters, with respect to compliance with Singapore laws and regulations, and has been assisting on our Company's secretarial matters in the past years. Mr. Goh is currently a certified public accountant in Singapore. Immediately prior to his appointment with our Group, Mr. Goh was employed by Ernst & Young as an audit manager in 2007. From 2002 to 2007, following the merger of Arthur Anderson with Ernst & Young, he was involved in the assurance & advisory business services unit and led audit engagements in various companies. He also assisted certain companies in their listings and with mergers and acquisitions. In 1999, he joined Arthur Anderson and was involved in assurance and business advisory and transaction advisory services. In 1998, he worked at KPMG as an audit assistant. Mr. Goh obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1998.

SONG Yanmei (宋艷梅), aged 47, joined our Group in March 2000 and is currently the Assistant CEO of our Group. Ms. Song is responsible for all public relations matters relating to our Group (including dealing with enquiries from the public, news organisations and investors). Ms.Song was employed by the Dairy Farm of Beijing Beijiao Farm (北京市北郊農場奶牛分場) from 1991 to 2000. Ms. Song obtained a Bachelor's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1991.

LIN Guimin (林桂敏), aged 37, joined our Group in July 1999 and is currently the Assistant CEO of our Group. Ms. Lin is responsible for the production, procurement and quality control of our Group. Ms. Lin started her employment with our Group in 1999 after she graduated from Hebei Agriculture University (河北農業大學) with a Bachelor's degree in agriculture in 1999.

ZHU Chunbo (朱春波), aged 37, joined our Group in April 2003 and is currently the Head of Sales and Distribution of our Group. Mr. Zhu is responsible for our Group's sales and distribution matters, including logistics. Prior to joining our Group, Mr. Zhu was the head of sales in Puruina Animal Feed Co. Ltd. from 1998 to 2003. Between 1995 to 1998, he worked as a sales personnel in Asia Pacific Animal Feed Co. Ltd.. Mr. Zhu obtained a diploma in sport science from Langfang Teaching Institute (廊坊師範學院) in 1995.

MA Juhong (馬聚宏), aged 42, joined our Group in March 1997 and is one of our Sales and Distribution Managers. Mr. Ma's responsibilities include the sales and distribution activities relating to Shenzhou Pagina-kang, Beijing Healthcare and Hebei Runshengzhongfu. Mr. Ma works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the deputy general manager of Hebei Province Xingtai Hongda Technology Co. Ltd. (河北省邢台市宏達科技有限公司) from 1995 to 1997 and the office manager of Hebei Province Xingtai Residential and Property Co-operative (河北省邢台市住宅合作社) from 1994 to 1995. He worked as a freelancer from 1987 to 1989. Mr. Ma obtained a diploma in communications from Hebei Electronics Technological Institute (河北機電職業技術學院) in 1987.

ZHANG Yuguang (張宇光), aged 35, joined our Group in 2001 and is one of our Sales and Distribution Managers. Mr. Zhang is responsible for, amongst others, the sales and distribution activities relating to Shijiazhuang Aoxin, Shijiazhuang Greenxinkang, Hebei Runshengzhongfu and Hebei Geruisi. Mr. Zhang works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the sales manager of Shijiazhuang Zhengda Hongfu Farming Co., Ltd. (石家莊正大鴻福牧業有限公司) from 1999 to 2001 and the business representative for Hebei Kexing Pharmaceutical Co., Ltd. (河北科星藥業有限公司) from 1998 to 1999. Mr. Zhang obtained a diploma in management and farming economics from Zhangjiakou Agriculture College (張家口農業高等專科學校) in 1998.

WANG Yubin (王玉斌), aged 36, joined our Group in 2000 and is one of our Sales and Distribution Managers. Mr. Wang is responsible for, amongst others, the sales and distribution activities relating to Shenzhou Pagina-kang, Shijiazhuang Maidisenda, Shijiazhuang Lixinkang, and Beijing Healthcare. Mr. Wang works closely with other Sales and Distribution Managers of our Group. He started his employment with our Group in 2000 after he graduated from Hebei Agriculture University (河北農業大學) with a Bachelor's degree in agriculture in 2000.

Corporate Information

BOARD OF DIRECTORS
Wang Yangang
(Executive Chairman & CEO)
Sun Jinguo
(Deputy CEO)
Fu Shan
(Non-executive Director)
Joshua Ong Kian Guan
(Independent Non-executive Director)
Feng Jinglan
(Independent Non-executive Director)
Wong Gang
(Independent Non-executive Director)

AUDIT COMMITTEE
Joshua Ong Kian Guan (Chairman)
Feng Jinglan
Wong Gang

REMUNERATION COMMITTEE
Wong Gang (Chairman)
Feng Jinglan
Joshua Ong Kian Guan

NOMINATION COMMITTEE
Feng Jinglan (Chairman)
Joshua Ong Kian Guan
Wong Gang

JOINT COMPANY SECRETARIES
Ngai Kit Fong
Goh Kay Seng Edwin
Yeoh Kar Choo Sharon

ASSISTANT COMPANY SECRETARY
Ira Stuart Outerbridge III (FCIS)

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

COMPANY REGISTRATION NUMBER
28986
(Incorporated in Bermuda
on 10 August 2000)

PRINCIPAL PLACE OF BUSINESS
No. 6, Kangding Street
Beijing Economic and Technological
Development Zone
Beijing 100176
PRC
Tel: 86 10 5157 1919
Fax: 86 10 5157 1928
www.chinanimalhealthcare.com

AUDITORS
Moore Stephens LLP
10 Anson Road #29-15,
International Plaza,
Singapore 079903

Partner-in-charge: Ng Chiou Gee Willy
(since financial year
ended 31 December 2008)

PRINCIPAL SHARE REGISTRAR
HSBC Bank Bermuda Limited
Bank of Bermuda Building
6 Front Street Hamilton HM11
Bermuda

SINGAPORE SHARE TRANSFER AGENT
M & C Services Private Limited
138 Robinson Road #17-00
The Corporate Office
Singapore 068906

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
Level 26, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
OCBC Bank
65 Chulia Street
OCBC Centre
Singapore 049513

DBS Bank (Hong Kong) Limited
G/F, The Center,
99 Queen's Road Central,
Central, Hong Kong

HSBC Bank (China) Company Limited
2/F, Block A, Beijing COFCO Plaza
No.8 Jianguomennei Avenue,
Dongcheng District, Beijing, PRC

Agricultural Bank of China
Shenzhou Sub-Branch
No. 26 Taishan West Road
Shenzhou City, PRC

Agricultural Bank of China
Shijiazhuang Donggang Road Sub-Branch
No. 75 Donggang Road
Shijiazhuang City, PRC

Agricultural Bank of China
Shijiazhuang Guang'an Sub-Branch
No. 50 West Avenue
Shijiazhuang City, PRC

China Everbright Bank
Economic and Technological Development
Zone Sub-Branch
No. 1-C2 Tianbao South Road
Beijing Economic and Technological
Development Zone, PRC

China Minsheng Banking Corp., Ltd.
Shijiazhuang Branch
No. 10 West Avenue
Shijiazhuang City, PRC

Corporate Governance Report

The Board of Directors and Management of China Animal Healthcare Ltd. ("Company" and together with its subsidiaries the "Group") are committed to high standards of corporate governance. The SGX-ST's Listing Manual requirement (the "listing requirement") and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules") require an issuer to describe in its annual report its corporate governance practices with specific reference to the principles of the Code of Corporate Governance 2005 (the "Singapore CG Code") and the Code of Corporate Governance Practices (the "HK CG Code") contained in Appendix 14 of the Listing Rules.

This Report describes the Company's corporate governance processes and practices with specific reference to the principles of the Singapore CG Code and the HK CG Code. For the year ended 31 December 2011, the Company has generally adhered to the principles and guidelines of the Singapore CG Code and the HK CG Code except for Guideline 3.1 and code provision A.2.1 (Chairman and CEO should be separate persons), and the reason for the deviation is stated under Principle 3.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

In order to perform its functions effectively, the Board comprises Directors with a wide range of skills, experience and qualities in the fields of operations management, financial, legal and accounting. Such diversity of skills ensures that the Board is equipped to deal with a range of issues.

The Board has overall responsibility for the corporate governance of the Company so as to protect and enhance long-term shareholder value. It sets the overall strategy for the Company and supervises executive management and monitors their performance. Apart from its statutory responsibilities, the Board is responsible for:

(a) Reviewing the financial performance and condition of the Group;

(b) Approving the Group's strategic plans, key operational initiatives, major investment and funding decisions; and

(c) Identifying principal risks of the Group's business and ensuring the implementation of appropriate systems to manage the risks.

The Board holds at least 4 formal meetings yearly with active participation of a majority of the directors entitled to be present, with additional meetings for particular matters convened when necessary. For the financial year ended 31 December 2011, the Board held four meetings. The Board shall also periodically review, at least annually, the internal control and risk management systems of the Company to ensure that there are sufficient guidelines and procedures in place to monitor its operations.

In respect of regular board meetings, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting.

To assist in the execution of its responsibilities, the Board has established a number of committees, including an Audit Committee ("AC"), a Nomination Committee ("NC") and a Remuneration Committee ("RC"). These committees are chaired by Independent Non-executive Directors and function within clearly defined terms of reference and operating procedures.

The following table shows the number of meetings held and Directors' attendances during the financial year under review:

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
	No. of Meeting held	**No. of Meeting attended**	**No. of Meeting held**	**No. of Meeting attended**	**No. of Meeting held**	**No. of Meeting attended**	**No. of Meeting held**	**No. of Meeting attended**
Wang Yangang	4	4	4	4*	1	1*	1	1*
Sun Jinguo	4	4	4	4*	1	1*	1	1*
Fu Shan	4	4	4	4*	1	1*	1	1*
Joshua Ong Kian Guan	4	4	4	4	1	1	1	1
Feng Jinglan	4	4	4	4	1	1	1	1
Wong Gang	4	4	4	4	1	1	1	1

* By invitation

The Company recognizes the importance of appropriate training for its Directors. Briefing and orientation sessions on the Group's business activities and strategic directions have been organized for all the Independent Non-executive Directors and follow-up briefings will be organized whenever necessary. Sessions on duties and responsibilities of directors have been conducted for all the Directors.

The Directors will also be briefed from time to time on regulatory changes which have an important bearing on the Company and the Directors' obligations towards the Company.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board has six members comprising the two Executive Directors, one Non-executive Director and three Independent Non-executive Directors and complied with the requirement that these include at least one such Director with appropriate professional qualifications or accounting or related financial management expertise. Each member of the Board will hold office pursuant to the provisions of the Bye-Laws and shall be eligible for re-election unless lawfully disqualified from holding office.

Name of director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Wang Yangang	√ Executive Chairman & CEO & Executive Director	—	—	—
Sun Jinguo	√ Deputy CEO & Executive Director	—	—	—
Fu Shan	√ Non-executive Director	—	—	—
Joshua Ong Kian Guan	√ Lead Independent Non-executive Director	√ Chairman	√	√
Feng Jinglan	√ Independent Non-executive Director	√	√ Chairman	√
Wong Gang	√ Independent Non-executive Director	√	√	√ Chairman

There is no relationship among members of the Board. Key information regarding the Directors is given in the section entitled "Board of Directors" in this Annual Report.

The composition of the Board enables management to benefit from a broad and objective perspective as each director brings to the Board a diverse background, experience and knowledge in the fields of operations management, financial, legal and accounting. The Board adopts the Singapore CG Code's definition of what constitutes an independent non-executive director in its review. The Board is of the view that the three Independent Non-executive Directors (who represent one-half of the Board) are independent. No individual or small group of individuals dominates the Board's decision making process. Furthermore, the Company has received from each of its Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

The Board is satisfied that the current composition of the Board is appropriate and that the present constitution of the Board allows it to exercise objective judgement on corporate matters.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company — the working of the Board and the executive responsibility of the company's business — which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Mr Wang Yangang, the Executive Chairman and CEO bears responsibilities for the workings of the Board and ensures the integrity and effectiveness of the governance process of the Board. He is responsible for representing the Board to Shareholders. As the CEO, his responsibilities include the charting and reviewing of corporate directions and strategies, which cover areas of marketing and strategic alliances and providing the Company with strong leadership and vision.

The Chairman, with the assistance of the company secretaries, schedules board meetings, determines meeting agendas in consultation with other Board members, co-ordinates the flow of information between management and the Board and ensures compliance with the Company's guidelines on corporate governance.

The Board has not adopted the recommendation of the Singapore CG Code or the HK CG Code to have separate directors appointed as the Chairman and CEO. This is because the Board is of the view that there is already a sufficiently strong independent element on the Board to enable independent exercise of objective judgement on affairs and operations of the Group by members of the Board, taking into account factors such as the number of the Independent Non-executive Directors on the Board as well as the contributions made by each member at board meetings which relate to the affairs and operations of the Group. The Board is satisfied that one person is able to effectively discharge the duties of both positions.

Further, the independence of the Board has been enhanced by the appointment of the Lead Independent Non-executive Director, Mr Joshua Ong Kian Guan, who is the AC Chairman. The role of the Lead Independent Non-executive Director includes meeting with shareholders where they have concerns which contact through the normal channels of the Chairman, CEO or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. In addition, the Lead Independent Non-executive Director will co-ordinate and lead the Independent Non-executive Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. Where necessary, the Lead Independent Non-executive Director will chair meeting with Independent Non-executive Directors without executive directors being present so as to facilitate well-balanced viewpoints to the Board.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

Nomination Committee ("NC")

The NC comprises three members, all of whom are independent non-executive directors. The chairman is Madam Feng Jinglan and the two members are Mr Joshua Ong Kian Guan and Mr Wong Gang.

The duties of the NC include, to:

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board of Directors on new appointments to the Board;
- establish a selection process which should include search and nomination process;
- determine orientation programs for new directors and recommend opportunities for the continuing training of the directors;

- make recommendations to the Board of Directors on the re-appointment of retiring directors standing for re-election at the Company's Annual General Meeting (AGM), having regard to the directors' contribution and performance (e.g. attendance, preparedness, participation and candour);

- ensure that all directors submit themselves for re-appointment and re-election at regular intervals and at least once every three years;

- determine annually whether or not a director (including independent non-executive director) is independent;

- review the structure, size and composition of the board with the objective of achieving a balanced board in terms of the mix of experience and expertise;

- formulate and implement a succession plan;

- review the appointment of immediate family members (spouse, child, adopted child, step-child, sibling and parent) of any of the Company's directors or substantial shareholders to managerial positions in the Company or its subsidiaries;

- determine whether a director who has multiple board representations is able to and has been adequately carrying out his duties as director of the Company;

- ensure that internal guidelines are adopted to address the competing time commitments that are faced when directors serve on multiple boards;

- ensure complete disclosure of key information of directors in the Company's annual reports as required under the Singapore CG Code and the HK CG Code;

- decide on how the Board's performance may be evaluated and recommend objective performance criteria to the Board;

- recommend to the Board the implementation of a process for assessing the effectiveness of the Board as a whole and to carry out the assessment process;

- recommend to the Board the implementation of a process for assessing the contribution by each individual director to the effectiveness of the Board and the committee to carry out the assessment process;

- report to the Board on its activities and proposals; and

- carry out such other duties as may be agreed to by the NC and the Board.

The NC reviews and recommends to the Board the re-appointment of retiring directors standing for re-election and appointment of new directors. The review ensures that the director to be re-appointed or appointed is able to contribute to the ongoing effectiveness of the Board, has the ability to exercise sound business judgement, and has demonstrated leadership experience, high levels of professional skills and appropriate personal qualities. A retiring director shall be eligible for election. Clause 86(1) of the Company's Bye-Laws, provides that each director (including non-executive director and independent non-executive directors) shall retire at least once every three (3) years and shall be eligible for re-election. Pursuant to this, Mr Sun Jinguo and Mdm Feng Jinglan will retire at the Company's forthcoming AGM and will be eligible for re-election.

The NC adopts the Singapore CG Code's definition of what constitutes an independent director in its review. The NC is of the view that the three Independent Non-executive Directors (who represent one-half of the Board) are independent. No individual or small groups of individuals dominate the Board's decision making process.

The NC also reviews whether a director who has multiple board representations is able to and has been adequately carrying out effectively the duties as a director and ensured that internal guidelines adopted to address the competing time commitments are relevant and being followed. All directors are required to declare their Board representations. As a result of the NC's review, the NC is of the view that Mr Joshua Ong Kian Guan and Mr Wong Gang who sit on multiple boards, have and are able to more than adequately carry out their duties as directors of the Board.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

A measure of the Board's performance is its ability to lend support to management especially in times of crisis and to steer the Company in the right direction.

The financial indicators set out in the Singapore CG Code serve as guides for the evaluation of directors are in our opinion more of a measure of management's performance and hence are less applicable to directors. In any case, such financial indicators provide a snapshot of a company's performance and do not fully measure the sustainable wealth creation and shareholder value of the Company in the long term.

The NC endeavours to use its best efforts to ensure directors appointed to the Board collectively possess the necessary background, experience and knowledge in our industry and relevant geographic areas and in business and finance and have the appropriate management skills critical to the company's business and that each director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

The NC, where appropriate, will look into establishing suitable processes to enhance compliance with the recommendation of the Singapore CG Code and the HK CG Code including the assessment of the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he is interested.

Access To Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

Directors are from time to time furnished with detailed information concerning the Group to enable them to be fully cognizant of the decisions and actions of the management. All Directors have unrestricted access to the Company's records and information. The agenda for Board meetings is prepared in consultation with the Chairman. Detailed Board papers are prepared for each meeting of the Board and are normally circulated three days in advance of each meeting. The Board papers include sufficient information from Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings. Such information may also be communicated to the directors via briefings and presentation by senior management staff or by external consultants engaged by specific projects. All Independent Directors have access to all levels of senior executives in the Group, and are encouraged to speak to other employees to seek additional information if they so require.

The Board has separate and independent access to the joint company secretaries and to other key executives of the Company and of the Group at all times in carrying out their duties. The joint secretaries or any one of them attend all Board meetings and meetings of the Board committees of the Company and ensure that Board procedures are followed and that applicable rules and regulations are complied with. The minutes of all Board committees' meetings are circulated to the Board. The Board takes independent professional advice as and when necessary to enable it or the Independent Non-executive Directors to discharge its or their responsibilities effectively. The Directors, either individually or as a group have the right to seek independent professional advice at the Company's expense, if necessary to assist them in their duties.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Remuneration Committee ("RC")

The RC comprises three members, all of whom are independent non-executive directors. The chairman is Mr Wong Gang, and the two members are Mr Joshua Ong Kian Guan and Madam Feng Jinglan. While none of the members specialize in the area of executive compensation, the RC, where necessary, may have access to independent professional expert advice.

The duties of the RC include, to:

- make recommendations to the Board on the Company's policy, structure and framework of remuneration for the directors and senior management of the Company and its subsidiaries;
- to determine and make recommendations to the Board on specific remuneration packages for each executive director, senior management and CEO (or executive of equivalent rank) of the Company and its subsidiaries;
- review all benefits and long-term incentive schemes (including share schemes) and compensation packages for the directors and senior management of the Company and its subsidiaries;
- review service contracts for the directors and senior management of the Company and its subsidiaries;
- administer the employees' share option scheme adopted by the Company;
- review the group's policy in allowing executive directors and senior management to accept appointments and retain payments from sources outside the group;
- review remuneration packages of group employees who are immediate family members (spouse, child, adopted child, step-child, sibling and parent) of any of the directors or substantial shareholders of the Company;
- review the annual remuneration report to be attached to the Company's annual report;
- report to the board on its activities and proposals;
- carry out such other duties as may be agreed to by the RC and the board;
- review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- to review and approve compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct that such compensation is determined in accordance with relevant contractual terms and is fair and not excessive; and
- to ensure that no director or any of its associates is involved in deciding his own remuneration.

The RC ensures the appropriateness, transparency and accountability to shareholders on issues of remuneration of the directors and key executives. The CEO is not present during discussions relating to his own compensation, terms and conditions of service and review of his performance. Similarly, each director or member of the RC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he is interested, except for providing information and documents specifically requested by the RC to assist it in its deliberations. Whenever necessary, the RC has access to expert advice from internal as well as external sources.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Group's remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate the directors. The Independent Non-executive Directors receive directors' fees, in accordance with their contribution, taking into factors such as effort and time spent and responsibilities of the directors. The directors' fees are recommended by the entire Board for shareholders' approval at each AGM. No director is involved in deciding his own remuneration. The Company currently does not have a formal service contract with the executive and independent non-executive directors except for Mr Wang Yangang, Executive Chairman and CEO. The Company does not have any long-term incentive scheme and employee share option scheme.

The Service Agreement entered into with the Executive Chairman and CEO, Mr Wang Yangang which expired on 31 December 2010 has been renewed for a further term of 3 years from 31 December 2010 to 31 December 2013. The remuneration package in the Service Agreement is subject to annual review by the RC and the Board. The Service Agreement shall be automatically renewed on the same terms unless either party notifies the other party of its intention of non-renewal by giving three months written notice prior to the expiry thereof. The Company may also terminate Mr Wang Yangang's employment by summary notice upon the occurrence of certain events, such as criminal conviction, bankruptcy or if he becomes of unsound mind. He will not be entitled to any compensation upon termination of his employment. The Service Agreement covers the term of employment, specifically salaries and bonuses.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The compensation paid or payable to the Board (including directors' fees) and senior management in remuneration bands of S$250,000 per annum, namely for remuneration bands of up to S$250,000 per annum ("Band I"), above S$250,000 and up to S$500,000 per annum ("Band II"), above S$500,000 and up to S$750,000 per annum ("Band III") and above S$750,000 and up to S$1,000,000 per annum ("Band IV"), for services rendered to the Group in FY2011 are as follows.

Directors

	FY2011	Salary %	Fees %	Bonus %	Other benefits %	Total %
Wang Yangang	Band IV	26.9	5.6	67.3	0.2	100.0
Sun Jinguo	Band I	27.3	55.3	15.2	2.2	100.0
Joshua Ong Kian Guan	Band I	—	100.0	—	—	100.0
Feng Jinglan	Band I	—	100.0	—	—	100.0
Wong Gang	Band I	—	100.0	—	—	100.0

Senior Management

	FY2011	Salary %	Fees %	Bonus %	Other benefits %	Total %
Edwin Goh Kay Seng	Band I	80.9	—	11.6	7.5	100.0
Li Jun	Band I	61.1	—	33.9	5.0	100.0
Song Yan Mei	Band I	61.1	—	33.9	5.0	100.0
Zhu Chun Bo	Band I	54.7	—	39.6	5.7	100.0
Lin Gui Min	Band I	61.1	—	33.9	5.0	100.0
Ma Ju Hong*	Band I	72.0	—	21.5	6.5	100.0
Zhang Yu Guang	Band I	72.0	—	21.5	6.5	100.0
Wang Yu Bin	Band I	74.9	—	21.8	3.3	100.0

* Mr Ma Ju Hong is the husband of Mr Wang Yangang's niece.

Save as disclosed above, the Company does not have any employees who are immediate family members of a director or the Chief Executive Officer whose remuneration exceeds S$150,000 in the financial year ended 31 December 2011.

Profiles of key executives are found on page 12 of this Annual Report.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

In presenting the annual financial statements and interim and annual announcements to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's and the Group's performance, position and prospects. Management currently provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a periodic basis.

The Board also acknowledges its responsibility for preparing the financial statement of the Group. The Board ensures that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" on page 39 of this annual report.

Audit Committee ("AC")

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC is chaired by Mr Joshua Ong Kian Guan, Lead Independent Non-Executive Director. The other members of the AC are Mr Wong Gang and Madam Feng Jinglan. All three directors are independent non-executive directors.

The Board recognizes the importance of corporate governance and the offering of high standards of accountability to the shareholders of the Company.

The AC holds four meetings yearly to, inter alia, review and recommend to the Board the release of the year-end and quarterly financial statements. For the financial year ended 31 December 2011, the AC held four meetings. The AC meets from time to time with the Group's external auditors and its management to review accounting, auditing and financial reporting matters so as to provide the necessary checks and balances to ensure that an effective control environment is maintained by the Group. Where necessary, the AC will also meet among themselves in the absence of management. The duties of the Audit Committee include, to:

- review the audit plans of the external auditors;
- review the external auditors' evaluation of the system of internal accounting controls, policies and practices;
- review and monitor integrity of the external auditors' reports;

- review the co-operation and/or assistance given by the Group's officers to the external auditors;
- review the financial statements of the Company and the Group before submission to the Board;
- review the external auditors' management letter and the response from management and to ensure the Board will provide a timely response to the issues raised in the external auditor's management letter;
- review the scope and results of the audits and their cost effectiveness with applicable standard and the independence and objectivity of the external auditors and should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- review significant financial reporting issues and judgments to ensure integrity of the financial statements and any formal announcements relating to the financial statements.
- review the independence of the external auditors annually;
- make recommendations to the Board, for the appointment, re-appointment and removal of the external auditors and consider and approve the external auditors' remuneration and terms of their engagement and any questions of resignation or dismissal of that auditor.
- ensure that arrangement is made for the review of the effectiveness of the Group's internal financial controls, operational and compliance controls and risk management policies and systems, at least annually and to consider any findings of major investigations of internal control matters;
- discuss with management and evaluate the system of internal controls to ensure the controls and risk management policies to safeguard the Group's assets are adequate and effective;
- review transactions falling within the scope of the listing manual, in particular matters pertaining to interested person transactions and acquisitions and realizations as laid down in the listing manual;
- commission and review the findings of internal investigations conducted where fraud or impropriety is suspected, or where there is a failure of internal controls or infringement of any Singapore law, rule or regulation which is likely to have a material impact on the Group;
- undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- review arrangements for employees to raise concern, in confidence, about possible wrongdoing in financial reporting or other matters and to ensure these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- review any hedging policy which may be put in place by the Board in the future;

- generally undertake such other functions and duties as may be required by statute, the listing manual or the Code of Corporate Governance, and by such amendments made thereto from time to time; and

- develop and implement policy on the engagement of an external auditor to supply non-audit services.

The AC has explicit authority to investigate any matter within its terms of reference, and has full access to, and the co-operation of, the Management and resources which are necessary to enable it to discharge its functions properly. It also has full discretion to invite any Executive Director or executive officer to attend its meetings. The AC meets with the external auditors separately, at least once a year, without the presence of the Management, to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements with particular emphasis on the observations and recommendations of the external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

The AC has put in place a whistle blowing policy where employees can, in confidence, raise concerns about possible improprieties in financial reporting matters or other matters.

Management proposed for a change of auditors to Deloitte Touche Tohmatsu in place of Moore Stephens LLP. The AC has reviewed and agreed that the proposed change of auditors be made based on the reasons stated below. The Board accepted the recommendation for the proposed change of auditors.

(1) Moore Stephens LLP has been the auditors since the financial year ended 31 December 2007 (the first financial year after the completion of the reverse take-over of the Company, formerly known as Colorland Animation Ltd.);

(2) Auditors are a critical component of the Group's overall corporate governance framework as they provide the Board and Shareholders with an independent verification of the Group's financial statements as well as highlighting areas for strengthening the Group's systems of internal control and accounting procedures during the course of their audit. A periodic rotation of auditors will serve to enhance the independence and effectiveness of the auditors and, in the process, further strengthen the corporate governance of the Group; and

(3) The Board and the AC have taken into account the adequacy of resources of Deloitte Touche Tohmatsu, its experience and audit engagements, the number and experience of supervisory and professional staff who will be assigned to the audit of the Group and its proposed audit arrangements for the Group.

Deloitte Touche Tohmatsu have confirmed that they are registered with the Accounting and Corporate Regulatory Authority. In this respect, the Company complies with Rule 712 of the SGX-ST Listing Manual. Deloitte & Touche's appointment as auditors is subject to shareholders' approval at the forthcoming AGM.

In respect of the audit for the financial year ended 31 December 2011, the Company paid S$250,000 to Moore Stephens LLP for its statutory audit services. There were no other non-audit services provided by Moore Stephens LLP.

The Company's annual results for the year ended 31 December 2011 has been reviewed by the AC.

INTERNAL CONTROLS

Internal Audit

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

The external auditors conduct annual review of the effectiveness of the Company's internal financial controls, operational and compliance controls. Any material noncompliance and recommendation for improvement are reported to the AC. The AC has reviewed the effectiveness of the Group's system of internal controls in light of key business and financial risks affecting the operations. Based on the reports submitted by the external auditors and discussion with management on the evaluation of the adequacy and effectiveness of the system of internal controls for safeguarding the Group's assets, the AC is satisfied that the internal control systems provide reasonable assurance that assets are safeguarded and that proper accounting records are maintained and financial statements are reliable. The Board with the concurrence of the AC is satisfied on the adequacy of the internal controls addressing, financial, operational and compliance risks.

The Board recognizes its responsibilities in ensuring a sound system of internal controls to safeguard shareholders' investments and the Company's assets. The Board also notes that no cost effective system of internal controls could provide absolute assurance against the occurrence of material errors, losses, fraud or other irregularities. In view of the above, the Board believes that, in the absence of any evidence to the contrary, the system of internal controls including financial, operational and compliance controls and risk management systems, maintained by the Management and that was in place during the financial year provides a reasonable but not absolute assurance against the occurrence of errors, losses, fraud or other irregularities and the identification and containment of business risk.

COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders & Greater Shareholder Participation

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company does not practice selective disclosure. In line with continuous disclosure obligations of the Company pursuant to the Listing Manual and Listing Rules, the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group. Information will be disseminated through SGXNET and SEHK announcements and news release. The Company will also make announcements from time to time to update investors and shareholders on developments that are of interest to them.

The Company will maintain open communications with investors and shareholders and will strive to attend to their queries directly, whether verbal or written. The Company welcomes active participation from shareholders at its AGMs. To facilitate voting by shareholders, the Company's bye-laws allow any member to appoint not more than two proxies to attend and vote at the AGMs.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Chairman of the AGM will therefore demand a poll for every resolution put to the vote of the AGM pursuant to Bye-law 65 of the Bye-laws of the Company.

Subject to compliances to any relevant laws or regulations and the demand for voting in absentia such as by mail, e-mail or fax etc. the Company may evaluate the possibility of such voting method and put in place the necessary security measures to ensure integrity of the information and authentication of the identity of shareholders will not be compromised. The Board may at its sole discretion, approve and implement such voting method.

At AGMs, the Chairpersons of the AC, NC, RC as well as the external auditors are requested to be present and available to address any queries by shareholders.

The Board takes note that there should be separate resolutions at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

DEALINGS IN SECURITIES

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") which prohibits the directors and relevant employees of the Group from dealing in the Company's shares during the period of 30 and 60 days immediately preceding the announcement of the Company's quarterly and full year results respectively, or if shorter, the period from the end of the relevant quarterly period/financial year up to the publication date of the results. In addition, directors and relevant employees are expected to observe insider trading laws/rules at all times even when dealing in securities within the permitted trading period. They are also discouraged from dealing in the Company's shares on short-term considerations. In addition, specific enquiry has been made to all Directors in relation to whether the Directors have complied with the required standard set out in the Model Code and all Directors have confirmed compliance with the required standard regarding directors' securities transactions.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

INTERESTED PERSON TRANSACTIONS

The Company ensures that all interested person transactions comply with its internal control procedures and Chapter 9 of the Singapore Exchange Listing Manual, and are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders and will be properly documented.

The AC reviews all interested person transactions, if any, at least quarterly to ensure that they are carried out at arm's length and in accordance with the internal control procedures. It will take into account all relevant non-quantitative factors. In the event that a member of the AC is interested in any interested person transaction, he will abstain from reviewing that particular transaction. If the Company, in consultation with the AC, believes that the internal control procedures are not sufficient to ensure that interests of minority Shareholders are not prejudiced, the Company will adopt new guidelines and procedures.

In addition, the AC includes the review of interested person transactions as part of its standard procedures while examining the adequacy of its internal controls. The Board also ensures that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with. In addition, such transactions will also be subject to Shareholders' approval if deemed necessary by the Listing Manual.

The interested person transactions transacted for the year ended 31 December 2011 by the Group are as follows:

	Aggregate value of all interested person transactions conducted (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) RMB'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) RMB'000
Rental expense paid to		
— Shijiazhuang Maidisen Animal Healthcare	4,100	—
— Beijing Haichenruian	4,000	—
— Shenzhou Pagina Animal Drug	700	—

USE OF PROCEEDS

On 11 August 2010, the Company issued US$40.0 million in principal amount of convertible bonds due 2015 and 20 million new shares at the issue price of S$0.35 per share for the aggregate placement consideration of S$7.0 million. The net proceeds are intended for use as working capital, acquisitions (if suitable opportunities arise) and share repurchases. Except for approximately RMB34.4 million which has been utilised to partially fund the Company's dual listing expenses on the SEHK, the remaining net proceeds have been placed with banks and financial institutions pending deployment.

MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiaries involving the interest of the Managing Director, each Director or Controlling Shareholder, which were either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

Report of the Directors

The directors are pleased to present their report to the members together with the audited consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiary companies (collectively the "Group") and the statement of financial position of the Company for the financial year ended 31 December 2011.

1 PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiary companies are set out in Note 17 to the financial statements. There were no significant changes in the nature of the Group's and the Company's principal activities during the year.

2 RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on page 40 to 104.

A final dividend of RMB2.2 cents per share in respect of the year ended 31 December 2010 was paid on 20 May 2011. The directors recommend the payment of a final dividend of RMB3.0 cents per share in respect of the year ended 31 December 2011.

3 SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated results and assets and, liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is disclosed in the Company's Annual Report. This summary does not form part of the audited financial statements.

4 PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 12 to the financial statements.

5 SHARE CAPITAL, PERFORMANCE SHARE SCHEME AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, performance share scheme and convertible bonds during the year are set out in Notes 26, 27 and 25 to the financial statements, respectively.

6 PRE-EMPTIVE RIGHTS

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

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

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

8 RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in Note 28 to the financial statements, respectively.

9 MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 6% of the total sales for the year and sales to the largest customer included therein amounted to 2%. Purchases from the Group's five largest suppliers accounted for 44% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

10 DIRECTORS

The directors of the Company during the year were:

Executive directors
Mr Wang Yangang (Executive chairman and chief executive officer)
Mr Sun Jinguo

Non-executive director
Mr Fu Shan

Independent non-executive directors
Mr Joshua Ong Kian Guan
Mr Wong Gang
Mdm Feng Jinglan

Mr Sun Jinguo and Madam Feng Jinglan will retire in accordance with Bye-Law 86(1) of the Company's Bye-Laws at the Company's forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") still considers them to be independent.

11 DIRECTORS' AND KEY MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the key management of the Group are disclosed in the Company's Annual Report.

12 CHANGE IN DIRECTORS' INFORMATION

Mr Joshua Ong Kian Guan ("Mr Ong") ceased to be the chairman of the Nomination Committee of JES International Holdings Limited on 1 July 2011.

The updated information regarding Mr Ong is disclosed in the annual report.

Apart from the foregoing, the Company has not been advised by the directors of any changes in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules as published by the SEHK since implementation of the said rule.

13 DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

14 DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 30(b) the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

15 MANAGEMENT CONTRACTS

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

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

As at 31 December 2011, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of directors	Directly beneficially owned	Through spouse or minor children	Percentage of the Company's issued share capital
Mr Wang Yangang*	—	848,774,583	53.34
Mr Sun Jinguo	300,000	—	0.02

* Held in the name of his spouse, Mdm Li Chunhua

There was no change in the above-mentioned interest between the end of the financial year and 21 January 2012.

Save as disclosed above, as at 31 December 2011, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

17. CAH PERFORMANCE SHARE SCHEME

On 15 April 2010, the shareholders of the Company approved the CAH Performance Share Scheme (the "Scheme") at an Extraordinary General Meeting. The Scheme is administered by the Remuneration Committee ("Committee") whose members are:

Mr Wong Gang *(Chairman)*
Mr Joshua Ong Kian Guan
Mdm Feng Jinglan

The Company operates a Performance Share Scheme (the "Scheme") for the purpose of providing an opportunity for group employees (including Group Executive Directors) who have met the performance targets to be remunerated through an equity stake in the Company and/or when due recognition should be given to any good work performance and/or significant contribution to the Group. The Scheme aims to motivate and incentivise participants to greater dedication, loyalty and higher standards of performance.

17. CAH PERFORMANCE SHARE SCHEME *(continued)*

During the previous year ended 31 December 2010, 13,000,000 share awards were granted and awarded to 223 employees (including directors and other key management personnel) under the Scheme. As at 31 December 2010, there were no outstanding share awards granted by the Company under the Scheme.

There were no outstanding share awards granted and/or awarded during the current year and as at 31 December 2011.

No employee received 5% or more of the total number of share awards available under the Scheme.

The following are details of share awards granted to the Directors of the Company under the Scheme:

Name of director	Awards granted during the year	Aggregate awards granted since commencement of the Scheme to end of the year	Aggregate awards released during the year	Aggregate awards lapsed during the year	Aggregate awards outstanding at the end of the year
Mr Sun Jinguo	—	300,000	—	—	—

18 CONTRACT OF SIGNIFICANCE

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

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

Please refer to Shareholdings Statistics as disclosed in the annual report for details on interests and short positions of 5% or more of the issued share capital of the Company that were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed in the Shareholdings Statistics, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and Chief Executive's interests and short positions in shares and underlying shares and debentures" above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

20 INTERESTED PERSON TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Save as disclosed in Note 30(b) to the financial statements, there were no material interested person transactions (as defined under the Listing Manual of the SGX-ST), connected transactions and continuing connected transactions (as defined under the Listing Rules).

The independent non-executive directors of the Company have reviewed the continuing connected transactions during the year set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of Directors have received an unqualified letter from the Company's auditors containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

21 SUFFICIENCY OF PUBLIC FLOAT

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

22 DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

23 EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

On behalf of the Board of Directors,

WANG YANGANG
Director

SUN JINGUO
Director

15 March 2012

Statement by Directors

In the opinion of the directors:

(a) the accompanying consolidated financial statements of the Group and the statement of financial position of the Company together with the notes thereto, as set out on pages 40 to 104, are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results, changes in equity and cash flows of the Group for the year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

WANG YANGANG
Director

SUN JINGUO
Director

15 March 2012

Independent Auditors' Report

To the members of China Animal Healthcare Ltd.

We have audited the accompanying consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiary companies (collectively referred to as the "Group"), as set out on pages 40 to 104, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the 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 of the Group and the statement of financial position of the Company give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011, and its financial performance and its cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP
Public Accountants and
Certified Public Accountants

Singapore
15 March 2012

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2011

	Note	Group 2011 RMB'000	Group 2010 RMB'000
Revenue	5	**768,124**	590,513
Cost of sales		**(218,106)**	(142,514)
Gross profit		**550,018**	447,999
Other income		**8,647**	3,676
Change in fair value of derivative financial instruments	25	**38,432**	12,003
Selling and distribution expenses		**(155,681)**	(132,269)
Administrative expenses		**(115,850)**	(128,874)
Other operating expenses		**—**	(89)
Finance income		**2,448**	2,792
Finance costs	6	**(25,896)**	(11,433)
Profit before taxation	7	**302,118**	193,805
Taxation	9	**(73,214)**	(64,129)
Profit for the year and total comprehensive income for the year		**228,904**	129,676
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**223,095**	119,668
Non-controlling interests		**5,809**	10,008
		228,904	129,676
Earnings per share — basic and diluted (RMB cents)	11	**14.02**	7.62

The accompanying notes form an integral part of the financial statements

Statements of Financial Position

As at 31 December 2011

	Note	Group		Company	
		2011	2010	**2011**	2010
		RMB'000	RMB'000	**RMB'000**	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**199,746**	200,362	**—**	—
Land use rights	13	**18,728**	19,141	**—**	—
Available-for-sale investments	14	**1,125**	1,125	**—**	—
Intangible assets	15	**611,517**	675,050	**—**	—
Goodwill	16	**124,617**	124,617	**—**	—
Deferred tax assets	9	**5,100**	4,700	**—**	—
Investment in subsidiaries	17(a)	**—**	—	**869,696**	869,696
Due from subsidiary	17(b)	**—**	—	**477,039**	428,728
		960,833	1,024,995	**1,346,735**	1,298,424
Current assets					
Inventories	18	**34,069**	15,082	**—**	—
Trade receivables	19	**97,624**	56,613	**—**	—
Prepayments and other receivables	20	**9,801**	5,132	**—**	—
Pledged deposits	21	**25,998**	4,000	**—**	—
Cash and cash equivalents	21	**704,182**	485,095	**45,343**	108,875
		871,674	565,922	**45,343**	108,875
Total assets		**1,832,507**	1,590,917	**1,392,078**	1,407,299
EQUITY AND LIABILITIES					
Current liabilities					
Trade payables	22	**17,724**	4,339	**—**	—
Other payables and accrued charges	23	**25,152**	48,525	**7,007**	15,687
Borrowings	24	**77,984**	20,000	**—**	—
Derivative financial instruments	25	**109,087**	—	**109,087**	—
Provision for income tax		**17,777**	19,439	**—**	—
		247,724	92,303	**116,094**	15,687
Net current assets/(liabilities)		**623,950**	473,619	**(70,751)**	93,188
Total assets less current liabilities		**1,584,783**	1,498,614	**1,275,984**	1,391,612

Statements of Financial Position

As at 31 December 2011

	Note	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
Non-current liabilities					
Convertible bonds	25	**122,323**	104,661	**122,323**	104,661
Derivative financial instruments	25	**—**	153,174	**—**	153,174
Deferred tax liabilities	9	**161,343**	171,560	**—**	—
		283,666	429,395	**122,323**	257,835
Total liabilities		**531,390**	521,698	**238,417**	273,522
Net assets		**1,301,117**	1,069,219	**1,153,661**	1,133,777
Equity attributable to owners of the Company					
Share capital	26	**79,075**	79,075	**147,127**	147,127
Reserves	28	**1,001,593**	813,509	**1,006,534**	986,650
		1,080,668	892,584	**1,153,661**	1,133,777
Non-controlling interests		**220,449**	176,635	**—**	—
Total equity		**1,301,117**	1,069,219	**1,153,661**	1,133,777
Total equity and liabilities		**1,832,507**	1,590,917	**1,392,078**	1,407,299

WANG YANGANG
Director

SUN JINGUO
Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2011

	Note	Attributable to owners of the Company							
	Note	Share capital	Share premium	Merger reserve	Reserve fund	Retained Earnings	Subtotal	Non-controlling interests	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group									
At 1 January 2011		**79,075**	**309,702**	**(26,358)**	**64,933**	**465,232**	**892,584**	**176,635**	**1,069,219**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**223,095**	**223,095**	**5,809**	**228,904**
Dividends	10	**—**	**—**	**—**	**—**	**(35,011)**	**(35,011)**	**—**	**(35,011)**
Appropriation to reserve fund		**—**	**—**	**—**	**15,769**	**(15,769)**	**—**	**—**	**—**
Investment in subsidiary		**—**	**—**	**—**	**—**	**—**	**—**	**38,005**	**38,005**
At 31 December 2011		**79,075**	**309,702**	**(26,358)**	**80,702**	**637,547**	**1,080,668**	**220,449**	**1,301,117**
At 1 January 2010		76,192	259,065	(26,358)	42,511	399,154	750,564	21,122	771,686
Total comprehensive income for the year		—	—	—	—	119,668	119,668	10,008	129,676
Dividends	10	—	—	—	—	(31,168)	(31,168)	—	(31,168)
Issuance of shares pursuant to placement	26	1,747	33,302	—	—	—	35,049	—	35,049
Share issue expense		—	(730)	—	—	—	(730)	—	(730)
Shares awarded under the Performance Share Scheme	26	1,136	18,065	—	—	—	19,201	—	19,201
Appropriation to reserve fund		—	—	—	22,422	(22,422)	—	—	—
Acquisition of subsidiary	29	—	—	—	—	—	—	145,505	145,505
At 31 December 2010		79,075	309,702	(26,358)	64,933	465,232	892,584	176,635	1,069,219

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

	Note	Group 2011 RMB'000	2010 RMB'000
Cash Flows from Operating Activities			
Profit before taxation		**302,118**	193,805
Adjustments for:			
Share-based payments expense (Performance Share Scheme)		**—**	19,201
Change in fair value of derivative financial instruments		**(38,432)**	(12,003)
Depreciation of property, plant and equipment		**15,360**	10,508
Property, plant and equipment written-off		**235**	903
Loss on disposal of property, plant and equipment		**3**	—
Amortisation of land use rights		**413**	344
Amortisation of production technology rights		**62,333**	15,250
Amortisation of seed strains		**1,200**	700
Foreign exchange gain, unrealised		**(9,476)**	(4,000)
Interest on convertible bonds at amortised cost		**22,762**	8,510
Interest income		**(2,448)**	(2,792)
Interest expense		**2,864**	2,653
Operating cash flows before changes in working capital		**356,932**	233,079
Inventories		**(18,987)**	(6,099)
Trade receivables		**(41,011)**	(35,918)
Prepayments and other receivables		**(4,669)**	1,183
Trade payables		**13,385**	90
Other payables and accrued charges		**(23,373)**	(3,682)
Cash generated from operating activities		**282,777**	188,653
Interest received		**2,448**	2,792
Interest paid		**(2,864)**	(2,653)
Income tax paid		**(85,493)**	(57,179)
Net cash from operating activities		**196,368**	131,613

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

	Note	Group 2011 RMB'000	2010 RMB'000
Cash Flows from Investing Activities			
Investment in available-for-sale investments		**–**	(1,125)
Purchase of property, plant and equipment		**(15,162)**	(6,639)
Proceeds from disposal of property, plant and equipment		**180**	–
Increase in investment in subsidiary by non-controlling interest		**38,005**	–
Net cash outflow on acquisition of Bigvet Biotech	29(i)	**–**	(94,831)
Net cash outflow on acquisition of Beijing Jianxiang Hemu	29(ii)	**–**	(209,935)
Net cash generated from/(used in) investing activities		**23,023**	(312,530)
Cash Flows from Financing Activities			
Proceeds from issuance of convertible bonds		**–**	263,836
Proceeds from share placements		**–**	35,049
Share issue expense		**–**	(730)
Bank deposit pledged		**(21,998)**	(4,000)
Proceeds from borrowings		**77,984**	13,000
Repayment of borrowings		**(20,000)**	(62,712)
Dividends paid		**(35,011)**	(31,168)
Net cash generated from financing activities		**975**	213,275
Net increase in cash and cash equivalents		**220,366**	32,358
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(1,279)**	1,492
Cash and cash equivalents at the beginning of year		**485,095**	451,245
Cash and cash equivalents at the end of year	21	**704,182**	485,095

The accompanying notes form an integral part of the financial statements

Notes to the Financial Statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements:

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are dual primary listed on the Mainboard of the Singapore Exchange Securities Trading Limited (“SGX-ST”) and The Stock Exchange of Hong Kong Limited (the “SEHK”). The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is No. 6 Kangding Street Beijing Economic — Technological Development Area, Beijing 100176, the People’s Republic of China (“PRC”).

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in Note 17.

The ultimate controlling party of the Group is Mdm Li Chunhua.

The Board of Directors has authorised the issue of the financial statements in accordance with a resolution of the directors on 15 March 2012.

2 APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

IFRS comprise International Financial Reporting Standards; International Accounting Standards (“IAS”); and Interpretations (“IFRIC”) issued by the International Accounting Standards Board (“IASB”).

Adoption of New/Revised IFRS Which Are Effective

The following are revised or amended standards which are effective and relevant to the Group as of 1 January 2011:

		Effective for accounting periods beginning on or after
IFRS 3 (Amendment)	Business Combinations*	1 July 2010
IFRS 7 (Amendment)	Financial Instruments: Disclosures*	1 January 2011
IAS 24 (Revised)	Related Party Transactions	1 January 2011
IAS 27 (Amendment)	Consolidated and Separate Financial Statements*	1 July 2010
IAS 34 (Amendment)	Interim Financial Reporting*	1 January 2011

* Under the Improvements to IFRS 2010

2 APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(continued)*

Adoption of New/Revised IFRS Which Are Effective *(continued)*

Except as discussed below, the adoption of the above revised or amended standards have no had any effect on the Group's financial statements for the financial year ended 31 December 2011.

- IAS 24 (Revised) "Related Party Transactions" — The revised standard provides a partial exemption for government-related entities. If a government controlled or significantly influenced an entity, the entity requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. This balance is achieved by requiring disclosure about these transactions only if they are individually or collectively significant. The amendment also provides a revised definition of a related party that is simplified and removes inconsistencies. The amendment has not had any impact on the related party transactions disclosures reported in the Group's financial statements, as set out in Note 30.

- IFRS 3 (Amendment) "Business Combinations" — The amendment clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interests are measured at fair value unless another measurement basis is required by other standards.

  The amendment further clarifies that contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of IFRS 3 (Revised) are to be accounted for in accordance with the guidance in the previous version of IFRS 3, at initial recognition, i.e. contingent consideration is recognised at fair value if it is deemed to be probable of payment and can be measured reliably at the date of the acquisition. All subsequent changes in the contingent consideration are adjusted against the cost of combination. Under the IFRS 3 (Revised), at initial recognition, contingent consideration is now required to be recognised at fair value even if it is deemed not to be probable of payment at the date of the acquisition. All subsequent changes in debt contingent consideration are recognised in profit or loss in the consolidated statement of comprehensive income, rather than the goodwill.

  Changes to the Group's accounting policy has been made as required in accordance with the above amendments (see Note 3(b)(i)) but the amendments has no had any impact on the Group's financial statement as there were no business combinations with acquisition for the current financial year to account for these amendments.

2 APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(continued)*

Adoption of New/Revised IFRS Which Are Effective *(continued)*

At the date of these financial statements, the following new or revised standards which have been issued and relevant to the Group but are not yet effective:

		Effective for accounting periods beginning on or after
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurements	1 January 2013
IAS 27 (Revised)	Separate Financial Statements	1 January 2013

Except as discussed below, the adoption of the above new or revised standards is not expected to have a significant effect on the Group's financial statements on application. However, certain of these standards will require more extensive disclosures in the financial statements than those in the current standards.

- IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

  Key requirements of IFRS 9 are described as follows:

  — IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

2 APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(continued)*

Adoption of New/Revised IFRS Which Are Effective *(continued)*

— The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

In December 2011, the IASB issued Mandatory Effective Date of IFRS 9 and Transition Disclosures, which defers the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and amended the transitional provisions to provide relief from restating comparative information.

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

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with IFRS.

The financial statements have been prepared on an historical cost basis except as disclosed in the accounting policies below.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Group Accounting

(i) Subsidiaries

Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity in the consolidated statement of financial position, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss in the consolidated statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Group Accounting *(continued)*

(i) ***Subsidiaries*** *(continued)*

Acquisition of businesses (continued)

Acquisition-related costs are expensed as incurred.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standards.

Any excess of the sum of the fair value of the consideration transferred in the business combinations, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill on the consolidated statement of financial position. The accounting policy for goodwill is set out in Note 3(f). In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss in the consolidated statement of comprehensive income on the acquisition date.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Group Accounting *(continued)*

(i) Subsidiaries (continued)

Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss in the consolidated statement of comprehensive income or transferred directly to retained earnings within equity if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss in the consolidated statement of comprehensive income.

(ii) Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 parent.

(c) Functional and Foreign Currencies

The currency of the primary economic environment in which the Company and its subsidiaries operates is Renminbi ("RMB"), as their principal operations are conducted in the PRC. Accordingly, the financial statements are presented in RMB, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Transactions in foreign currencies are measured in the respective functional currencies of the Group's entities and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Functional and Foreign Currencies *(continued)*

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting year are recognised in profit or loss in the consolidated statement of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated in currency translation reserve within the equity in the consolidated statement of financial position and recognised in profit or loss in the consolidated statement of comprehensive income on disposal of the foreign operations.

For inclusion in the consolidated financial statements, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange ruling at the end of the reporting year and their consolidated statement of comprehensive income are translated into RMB at the average exchange rates which approximate the rates at transaction dates. The exchange differences arising on the translation are recognised in other comprehensive income and accumulated in a separate component of equity as currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised in currency translation reserve relating to that particular foreign operation is recognised in profit or loss in the consolidated statement of comprehensive income.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the property, plant and equipment to the location and condition necessary for it to be capable of operating intended by management. Subsequent expenditure for additions, improvements and renewals is capitalised only when it is probable that future economic benefits associated with the property, plant and equipment will flow to the Group and the cost of the property, plant and equipment can be measured reliably. All other repair and maintenance expenses are charged to profit or loss in the consolidated statement of comprehensive income when incurred.

Depreciation is calculated on the straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings	30 years, or over the lease term of the relevant land use right, whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, Plant and Equipment *(continued)*

The residual value, useful life and depreciation method are reviewed at least annually to ensure that the amount, method and year of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the property, plant and equipment is included in profit or loss in the consolidated statement of comprehensive income in the year the property, plant and equipment is derecognised.

(e) Land Use Rights

Land use rights are initially recognised at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised on a straight-line basis over the lease term.

(f) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination. The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss in the consolidated statement of comprehensive income. Impairment losses recognised for goodwill are not reversed in subsequent years.

When goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed off, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative fair values of the operations disposed off and the portion of the cash-generating unit retained.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible Assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination and recognised separately from goodwill is their fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and amortisation method are reviewed at least annually.

(h) Investment in Subsidiaries

Investment in subsidiaries are carried at cost less impairment losses in the Company's statement of financial position.

(i) Impairment of Non-financial Assets other than Goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in profit or loss in the consolidated statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss (other than goodwill) is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss be recognised previously. Such reversal is recognised in profit or loss in the consolidated statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials calculated on a weighted average basis and in the case of finished goods, includes direct labour and attributable production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and costs necessary to make the sale.

(k) Financial Instruments

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

Financial assets

The Group's financial assets include loans and receivables and available-for-sale investments. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in profit or loss in the consolidated statement of comprehensive income.

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting year.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

Financial assets *(continued)*

As assessment for impairment is undertaken at least each accounting year-end date whether or not there is objective evidence that financial assets or group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Group will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

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

Financial liabilities

The Group's financial liabilities are trade and other payables, borrowings and liability component of convertible bonds. Financial liabilities are recognised when the Group becomes a party of the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at fair value. Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss in the consolidated statement of comprehensive income, when the changes arise.

(l) Convertible Bonds

The component parts of convertible bonds issued by the Group are classified separately as a liability component and derivative component in accordance with the substance of the contractual arrangement. At the date of issue, the derivative component of the convertible bonds is measured at fair value at initial recognition and presented as part of derivative financial instruments. At initial recognition, the liability component is recognised at fair value. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of comprehensive income in profit or loss in the consolidated statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Convertible Bonds *(continued)*

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss in the consolidated statement of comprehensive income on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss in the consolidated statement of comprehensive income.

(m) Cash and Cash Equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents included cash on hand, deposits with financial institutions which are subject to an insignificant risk of changes in value, less pledged deposits.

(n) Borrowing Costs

Borrowing costs are recognised in profit or loss in the consolidated statement of comprehensive income as incurred except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

(o) Financial Guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss in the consolidated statement of comprehensive income over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amounts with the difference charged to profit or loss in the consolidated statement of comprehensive income.

(p) Share Capital

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share premium account.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Dividends to Company's Shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

(r) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownerships of the goods to the customers, which is net of discounts and sales related taxes.

Interest income

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

Dividend income

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

(s) Employee Benefits

Defined contribution plans

Defined contribution plans (including state-managed retirement benefit schemes) are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. Contributions to defined contributions plans are recognised as an expense in profit or loss in the consolidated statement of comprehensive income as they fall due.

Employee leave entitlement

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 end of the reporting year.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee Benefits *(continued)*

Performance share scheme

The Group operates an equity-settled, share-based Performance Share Scheme. The fair value of the employee services received in exchange for the grant of share awards is recognised as an expense with a corresponding increase in the share award reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the share awards granted on the date of the grant. At each balance sheet date, the Group granted the number of shares under awards that are expected to become issuable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share award reserve over the remaining vesting period.

The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share award reserve is transferred to retained earnings upon expiry of the share awards. When the shares under the awards are issued, the employee share award reserve is transferred to share capital if new shares are issued, or to treasury shares if the awards are satisfied by the reissuance of treasury shares.

(t) Operating Lease

Operating lease payments are recognised as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

(u) Taxation

Current income tax for current and prior year is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted and substantively enacted by the end of the year.

Deferred income tax is provided using the liability method on all temporary differences at the end of the reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Taxation *(continued)*

Deferred tax assets and liabilities are recognised for all temporary differences, except:

— Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss;

— In respect of temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

— In respect of deductible temporary differences and carry-forward of unutilised tax losses, if it is not probable that taxable profits will be available against which those deductible temporary differences and carry-forward of unutilised tax losses can be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting year and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(v) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management who are responsible for allocating resources and assessing performance of the operating segments.

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies, as set out in Note 3, based on historical experience and other factors considered to be relevant.

The preparation of financial statements also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

(a) Judgments Made in Applying Accounting Policies

In the process of applying the Group's accounting policies, there were no critical judgements that management had made that have a significant effect on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

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

- ***Depreciation of property, plant and equipment***

  Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be between 5 to 30 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2011 was RMB199,746,000 (2010: RMB200,362,000). The Group assesses at least annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the depreciation charge in the year in which such estimate is changed. A 10% difference in the expected useful lives of these assets from management's estimates would result in approximately 0.7% (2010: 0.8%) variance in the Group's profit after tax for the year.

- ***Amortisation of seed strains and production technology rights***

  Seed strains and production technology rights are amortised on a straight-line basis over their estimated useful lives. Management estimates the useful lives of seed strains and production technology rights to be between 5 to 10 years. The carrying amount of intangible assets as at 31 December 2011 was RMB611,517,000 (2010: RMB675,050,000). The Group assesses annually the useful lives of the seed strains and production technology rights and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the amortisation charge in the year in which such estimate is changed. A 10% difference in the expected useful lives of these assets from management's estimates would result in approximately 2.8% (2010: 1.2%) variance in the Group's profit after tax for the year.

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

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

- ***Impairment of intangible assets***

  Intangible assets are tested for impairment whenever there is indication that the intangible assets may be impaired. The recoverable amount of the allocated cash-generating unit has been determined based on value in use calculation. The calculation requires the use of estimates and assumptions (Note 15). Changes to these estimates and assumptions could result in a change in the carrying amount of the intangible assets. During the financial year, no allowance for impairment of intangible assets was made (2010: Nil). The carrying amount of the intangible assets as at 31 December 2011 was RMB611,517,000 (2010: RMB675,050,000).

  If the management's estimated growth rates and pre-tax discounted rates applied to the discounted cash flows for the cash-generating units as at 31 December 2011 is decreased/increased by 10% (2010: 10%), the relevant recoverable amounts are still in excess of the respective carrying amounts of intangible assets.

- ***Impairment of goodwill arising from acquisition of subsidiaries***

  Goodwill arising from acquisition of subsidiaries is tested for impairment annually and whenever there is indication that the goodwill may be impaired. The recoverable amount of the allocated cash-generating unit has been determined based on value in use calculation. The calculation requires the use of estimates and assumptions (Note 16). Changes to these estimates and assumptions could result in a change in the carrying amount of the goodwill. During the financial year, no allowance for impairment of goodwill arising from acquisition of subsidiaries was made (2010: Nil). The carrying amount of the goodwill arising from acquisition of subsidiaries as at 31 December 2011 was RMB124,617,000 (2010: RMB124,617,000).

  If the management's estimated growth rates and pre-tax discounted rates applied to the discounted cash flows for the cash-generating units as at 31 December 2011 is decreased/increased by 10% (2010: 10%), the relevant recoverable amounts are still in excess of the respective carrying amounts of goodwill.

- ***Fair value of derivative financial instruments***

  The Company has a zero-coupon convertible bond due 2015 with an aggregate principal amount of US$40.0 million. The embedded derivatives consisting of the conversion option and redemption option have been separated from the host debt contract and accounted for as derivative financial instruments (Note 25). The fair value of these derivative financial instruments is determined by using an appropriate valuation model and makes assumptions that are mainly based on market conditions existing at each balance sheet date. Changes to these assumptions could result in a change in the fair value estimate. For the financial year ended 31 December 2011, the fair value gain resulting from change in fair value of the derivative component of the convertible bonds was approximately RMB38,432,000 (2010: RMB12,003,000). The carrying amount of the derivative financial instruments as at 31 December 2011 was RMB109,087,000 (2010: RMB153,174,000).

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES *(continued)*

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

- ***Fair value of derivative financial instruments*** *(continued)*

  If the share price and volatility of share price inputed to the valuation model had been 10% higher or lower while all other variables were held constant, the Group's profit after tax for the year would decrease by approximately 1% (2010: 9%) or increase by 0.3% (2010: 6%) for the Group, principally as a result of the changes in fair value of the conversion option and redemption option of the convertible bonds.

5 REVENUE

Revenue of the Group represents the invoiced value of goods sold to customers excluding value-added tax.

	Group	
	2011	2010
	RMB'000	RMB'000
Powdered form drugs	**475,270**	411,091
Injection form drugs	**35,548**	33,848
Biological drugs	**257,306**	145,574
	768,124	590,513

6 FINANCE COSTS

	Group	
	2011	2010
	RMB'000	RMB'000
Interest on bank borrowings	**2,864**	2,653
Interest on convertible bonds at amortised cost	**22,762**	8,510
Bank charges	**270**	270
	25,896	11,433

7 PROFIT BEFORE TAXATION

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

	Group 2011 RMB'000	2010 RMB'000
Depreciation of property, plant and equipment	**15,360**	10,508
Interest income from bank balances	**(2,448)**	(2,792)
Audit fees — Company auditors	**1,224**	900
Non-audit fees — Company auditors	**—**	—
Amortisation of land use rights	**413**	344
Amortisation of production technology rights	**62,333**	15,250
Amortisation of seed strains	**1,200**	700
Foreign exchange gain	**(9,476)**	(4,000)
Loss on disposal of property, plant and equipment	**3**	—
Property, plant and equipment written-off	**235**	903
Inventories written off	**867**	—
Operating leases expense	**8,800**	7,953
Staff costs (Note 8(a))	**106,089**	106,223

8 EMPLOYEE BENEFITS

(a) Staff Costs

	Group 2011 RMB'000	2010 RMB'000
Salaries, bonuses and other short-term benefits	**104,475**	85,472
Contributions to defined contributions plans	**1,614**	1,550
Share-based payments expense (Performance Share Scheme) (Note 27)	**—**	19,201
	106,089	106,223

Staff costs amounting to RMB87.4 million (2010: RMB73.7 million) and RMB18.6 million (2010: RMB32.5 million) is included in selling and distribution expenses and administrative expenses, respectively. As at 31 December 2011, approximately 2,600 (2010: 2,500) employees were employed by the Group.

8 EMPLOYEE BENEFITS *(continued)*

(b) Directors' Emoluments

Details of the directors' remuneration for the year are as follows:

	Group				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses/shares awarded	Contributions to defined contribution plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011					
Executive Directors					
Wang Yangang	**255**	**1,236**	**3,082**	**10**	**4,583**
Sun Jinguo	**255**	**126**	**70**	**10**	**461**
Non-executive director					
Fu Shan	**100**	**—**	**—**	**—**	**100**
Independent Non-executive Directors					
Joshua Ong Kian Guan	**306**	**—**	**—**	**—**	**306**
Wong Gang	**297**	**—**	**—**	**—**	**297**
Feng Jinglan	**100**	**—**	**—**	**—**	**100**
	1,313	**1,362**	**3,152**	**20**	**5,847**
2010					
Executive Directors					
Wang Yangang	199	900	1,576	10	2,685
Sun Jinguo	199	132	493	10	834
Non-executive director					
Fu Shan	—	—	—	—	—
Independent Non-executive Directors					
Joshua Ong Kian Guan	248	—	—	—	248
Wong Gang	239	—	—	—	239
Feng Jinglan	80	—	—	—	80
	965	1,032	2,069	20	4,086

8 EMPLOYEE BENEFITS *(continued)*

(c) Individuals with Highest Emoluments

Of the five individuals with the highest emoluments in the Group, two are directors during the year whose emoluments are disclosed in Note 8(b). The aggregate of the emoluments in respect of the other individuals are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses and other short-term benefits	**1,369**	2,340
Contributions to defined contribution plans	**100**	72
	1,469	2,412
Less than RMB500,000	**—**	—
RMB500,001 — RMB1,000,000	**1**	1
	1	1

During the financial years ended 31 December 2011 and 2010, no emoluments has been paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the financial years ended 31 December 2011 and 2010.

9 TAXATION

	Group	
	2011	2010
	RMB'000	RMB'000
Tax expense comprised:		
Current income tax		
— Current year	**83,045**	70,845
— Over/(Under) provision in respect of previous year	**786**	(1,316)
	83,831	69,529
Deferred tax		
— Origination and reversal of temporary differences	**(15,297)**	(7,800)
— Withholding tax	**4,680**	2,400
	(10,617)	(5,400)
	73,214	64,129

9 TAXATION *(continued)*

Income tax on assessable profits during the financial years ended 31 December 2011 and 2010 have been calculated at the income tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

The reconciliation between tax expense and the accounting profit multiplied by the applicable income tax rates for the financial years ended 31 December 2011 and 2010 are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Profit before taxation	**302,118**	193,805
Tax at the applicable income tax rates	**68,913**	62,692
Tax effect of expenses not deductible for tax purposes	**236**	1,244
Utilisation of deferred tax asset not recognised in previous year	**(310)**	—
Deferred tax benefits not recognised	**3**	440
Effect on tax exemptions granted to subsidiaries in the PRC	**(1,094)**	(1,331)
Withholding tax on distributable profits of PRC subsidiaries	**4,680**	2,400
Over/(Under) provision in respect of previous year current income tax	**786**	(1,316)
	73,214	64,129

PRC income tax is calculated at the applicable tax rates in accordance with relevant laws and regulations in the PRC. On 16 March 2007, the Enterprise Income Tax Law (the "new EIT Law") was passed at the Fifth session of the Tenth National People's Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

No provision for Singapore income tax has been made as the Group has no assessable profits derived from Singapore during the financial years ended 31 December 2011 and 2010.

Unrecognised tax losses

As at 31 December 2011, unutilised tax losses of the Group that are available for offset against future taxable profits of the Group companies in which the losses arose amounted to approximately RMB12,000 (2010: RMB1,760,000), and for which no deferred tax asset is recognised due to uncertainty of its recoverability. The deferred tax asset not recognised is estimated to be RMB3,000 (2010: RMB440,000). The availability of these unutilised tax losses is subject to compliance with tax regulations and agreement by the tax authorities of the respective countries in which the Group companies operate.

9 TAXATION *(continued)*

Unrecognised temporary differences relating to investments in subsidiaries

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be exempted from withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules. Deferred tax liability on the distributable profits earned during the financial years ended 31 December 2011 and 2010 have been accrued at the concessionary tax rate of 5% based on the expected dividend stream which is determined by the directors of the Company.

As at 31 December 2011, the aggregate amount of temporary differences associated with undistributed earnings of the subsidiaries of the Group for which no deferred tax liability has been recognised amounted to RMB737,537,000 (2010: RMB501,125,000) based on the Group's accounting policy as stated in Note 3(u). The deferred tax liability not recognised is estimated to be RMB36,877,000 (2010: RMB25,056,000).

Tax consequences of proposed dividends

There are no income tax consequences (2010: Nil) attached to the proposed dividends to the Company's shareholders but not recognised as a liability in the financial statements (Note 10).

Deferred tax assets/(liabilities)

The major deferred tax assets/(liabilities) recognised and movement thereon during the year are as follows:

	Group Opening balance RMB'000	Recognised in profit or loss RMB'000	Closing balance RMB'000
2011			
Deferred tax assets:			
Unutilised tax losses*	**4,700**	**400**	**5,100**
Deferred tax (liabilities):			
Distributable profits of subsidiaries	**(5,705)**	**(4,680)**	**(10,385)**
Revaluation of properties			
— Acquisition of Bigvet Biotech (Note 29(i))	**(1,418)**	**64**	**(1,354)**
Seed strains/Production technology rights			
— Acquisition of Bigvet Biotech (Note 29(i))	**(115,000)**	**9,583**	**(105,417)**
— Acquisition of Beijing Jianxiang Hemu (Note 29(ii))	**(49,437)**	**5,250**	**(44,187)**
	(171,560)	**10,217**	**(161,343)**
Deferred tax expense		**10,617**	

9 TAXATION *(continued)*

Deferred tax assets/(liabilities) *(continued)*

	Group			
	Opening balance RMB'000	Acquisition RMB'000	Recognised in profit or loss RMB'000	Closing balance RMB'000
2010				
Deferred tax assets:				
Unutilised tax losses*	—	—	4,700	4,700
Deferred tax (liabilities):				
Distributable profits of subsidiaries	(3,305)	—	(2,400)	(5,705)
Revaluation of properties				
— Acquisition of Bigvet Biotech (Note 29(i))	—	(1,455)	37	(1,418)
Seed strains/Production technology rights				
— Acquisition of Bigvet Biotech (Note 29(i))	—	(115,000)	—	(115,000)
— Acquisition of Beijing Jianxiang Hemu (Note 29(ii))	—	(52,500)	3,063	(49,437)
	(3,305)	(168,955)	700	(171,560)
Deferred tax expense			5,400	

* This represents the tax effect of unutilised tax losses recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

10 DIVIDENDS

	Group	
	2011 RMB'000	2010 RMB'000
Declared and paid during the financial year:		
2010 interim tax exempt dividend of RMB2.0 cents per share	**—**	31,168
2010 final tax exempt dividend of RMB2.2 cents per share	**35,011**	—
	35,011	31,168
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting:		
— Final tax exempt dividend for 2011: RMB3.0 cents (2010: RMB2.2 cents) per share	**47,742**	35,011

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share amount is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial years ended 31 December 2011 and 2010.

The following table reflects the profit and share data used in the computation of basic earnings per share for the financial years ended 31 December 2011 and 2010.

	Group	
	2011	2010
Profit for the year attributable to owners of the Company (RMB'000)	**223,095**	119,668
Weighted average number of ordinary shares for basic earnings per share computation	**1,591,390,625**	1,570,891,995
Basic earnings per share (RMB cents)	**14.02**	7.62

(b) Diluted earnings per share

Diluted earnings per share amount is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares from the convertible bonds issued.

Diluted earnings per share is the same as basic earnings per share as the impact from the conversion of the convertible bonds was anti-dilutive.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Group					
2011					
Cost					
At 1 January 2011	**103,272**	**110,616**	**2,123**	**7,323**	**223,334**
Additions	**10,283**	**3,337**	**405**	**1,137**	**15,162**
Disposal	**—**	**—**	**—**	**(200)**	**(200)**
Written-off	**(314)**	**—**	**—**	**—**	**(314)**
At 31 December 2011	**113,241**	**113,953**	**2,528**	**8,260**	**237,982**
Accumulated depreciation					
At 1 January 2011	**4,770**	**15,434**	**993**	**1,775**	**22,972**
Charge for the year	**4,602**	**9,732**	**286**	**740**	**15,360**
Disposal	**—**	**—**	**—**	**(17)**	**(17)**
Written-off	**(79)**	**—**	**—**	**—**	**(79)**
At 31 December 2011	**9,293**	**25,166**	**1,279**	**2,498**	**38,236**
Carrying amount					
At 31 December 2011	**103,948**	**88,787**	**1,249**	**5,762**	**199,746**
2010					
Cost					
At 1 January 2010	17,738	44,491	1,399	5,287	68,915
Acquisition of Bigvet Biotech (Note 29(i))	84,601	63,207	535	340	148,683
Additions	1,786	2,918	189	1,746	6,639
Written-off	(853)	—	—	(50)	(903)
At 31 December 2010	103,272	110,616	2,123	7,323	223,334
Accumulated depreciation					
At 1 January 2010	1,600	8,855	813	1,196	12,464
Charge for the year	3,170	6,579	180	579	10,508
Written-off	—	—	—	—	—
At 31 December 2010	4,770	15,434	993	1,775	22,972
Carrying amount					
At 31 December 2010	98,502	95,182	1,130	5,548	200,362

13 LAND USE RIGHTS

	Group 2011 RMB'000	2010 RMB'000
Cost		
At 1 January	**19,941**	11,741
Acquisition of Bigvet Biotech (Note 29(i))	**—**	8,200
At 31 December	**19,941**	19,941
Accumulated amortisation		
At 1 January	**800**	456
Amortisation for the year	**413**	344
At 31 December	**1,213**	800
Carrying amount		
At 31 December	**18,728**	19,141

The land use rights are situated in Shanxi and Inner Mongolia, PRC, with remaining lease terms ranging from 43 to 48 of years.

14 AVAILABLE-FOR-SALE INVESTMENTS

The amount represented the Group's 11.25% equity interest in Jilin Kangda Rabbit Industry Co., Ltd. ("Jilin Kangda"). Jilin Kangda was established in the PRC in the form of domestic-invested company, and is a start-up company engaged in the business of rabbits breeding.

The amount is measured at cost less impairment at the end of the financial year as management is of the opinion that its fair value cannot be measured reliably.

15 INTANGIBLE ASSETS

	Seed strains RMB'000	Production technology rights RMB'000	Total RMB'000
Group			
2011			
Cost			
At 1 January 2011 and 31 December 2011	**11,500**	**685,000**	**696,500**
Accumulated amortisation			
At 1 January 2011	**700**	**20,750**	**21,450**
Amortisation for the year	**1,200**	**62,333**	**63,533**
At 31 December 2011	**1,900**	**83,083**	**84,983**
Carrying amount			
At 31 December 2011	**9,600**	**601,917**	**611,517**
2010			
Cost			
At 1 January 2010	—	15,000	15,000
Acquisition of Bigvet Biotech (Note 29(i))	11,500	460,000	471,500
Acquisition of Beijing Jianxiang Hemu (Note 29(ii))	—	210,000	210,000
At 31 December 2010	11,500	685,000	696,500
Accumulated amortisation			
At 1 January 2010	—	5,500	5,500
Amortisation for the year	700	15,250	15,950
At 31 December 2010	700	20,750	21,450
Carrying amount			
At 31 December 2010	10,800	664,250	675,050

15 INTANGIBLE ASSETS *(continued)*

The acquisitions of Bigvet Biotech and Beijing Jianxiang Hemu during the financial year ended 31 December 2010 resulted in the identification of production technology rights and seed strains used in the production of certain animal biological drugs. The estimated useful life of such right is estimated to be 10 years, with reference to the anticipated production capacity and existing technologies. The estimated useful life of seed strains is 10 years.

Production technology rights also include technologies rights acquired in 2006 in relation to various animal biological drugs the Group produces. The estimated useful life of these technologies rights is 5 years.

For the purposes of impairment testing, intangible assets has been allocated to each individual cash-generating units ("CGUs"), being Shanxi Longkeer (for the production technology rights acquired in 2006), Bigvet Biotech and Beijing Jianxiang Hemu as disclosed above, under the reportable segment of animal biological drugs.

As at 31 December 2011, management carried out an impairment test of those production technology rights and seed strains acquired as part of the acquisitions of Bigvet Biotech and Beijing Jianxiang Hemu described above. Accordingly, the recoverable amounts of the identified CGUs have been determined based on value in use calculations using cash flow projections from financial budgets and forecasts approved by management covering a eight to nine-year period according to their remaining estimated useful lives of the production technology rights (2010: based on the initial five-year period according to their approval year of the production licenses). The pre-tax discount rate of 15% (2010:10%) applied to the cash flow projections reflects management's estimate of the risks specific to the CGUs. It is derived from the cost of capital plus a reasonable risk premium at the date of assessment of the CGUs. The growth rate used during the projection year is 0% to 20% (2010: 0% to 10%) of the production capacity and the bidding price. The key factors for the value in use calculation are discount rates, growth rates, expected changes to revenue and direct costs, and the life of the production licences. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rate is based on industry growth forecasts. Changes in revenue and direct cost are based on past practices and expectations of future changes in the market. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflow and outflow patterns, estimated based on the CGUs' performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

Based on the management's review of the recoverable amount of the identified CGUs, no impairment on the aforesaid intangible assets was required during the financial year ended 31 December 2011 (2010: Nil).

16 GOODWILL

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**124,617**	2,441
Acquisition of Bigvet Biotech (Note 29(i))	**–**	69,741
Acquisition of Beijing Jianxiang Hemu (Note 29(ii))	**–**	52,435
At 31 December	**124,617**	124,617

(a) Goodwill arising on acquisition of subsidiaries

Included in the amount is RMB2,441,000 which represent the goodwill arising from acquisition of Shanxi Longkeer during the financial year ended 31 December 2008. The remaining balances of RMB69,741,000 and RMB52,435,000 represent the goodwill arising from acquisitions of Bigvet Biotech and Beijing Jianxiang Hemu during the financial year ended 31 December 2010, respectively.

(b) Impairment testing of goodwill

For the purposes of impairment testing, goodwill has been allocated to each individual cash-generating units ("CGUs"), being Shanxi Longkeer of RMB2,441,000, Bigvet Biotech of RMB69,741,000 and Beijing Jianxiang Hemu of RMB52,435,000, under the reportable segment of animal biological drugs, respectively.

The recoverable amounts of the identified CGUs have been determined based on value in use calculations using cash flow projections from financial budgets and forecasts approved by management covering a eight to nine-year period according to their remaining estimated useful lives of the production technology rights (2010: based on the initial five-year period according to their approval year of the production licenses). The pre-tax discount rate of 15% (2010: 10%) applied to the cash flow projections reflects management's estimate of the risks specific to the CGUs. It is derived from the cost of capital plus a reasonable risk premium at the date of assessment of the CGUs. The growth rates used during the projection years are 0% to 20% (2010: 0% to 10%) of the production capacity and the bidding price. The key factors for the value in use calculation are discount rates, growth rates, expected changes to revenue and direct costs, and the life of the production licences. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rate is based on industry growth forecasts. Changes in revenue and direct cost are based on past practices and expectations of future changes in the market. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflow and outflow patterns, estimated based on the CGUs' performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

Based on management's review of the recoverable amount of the identified CGUs, no impairment on goodwill was required during the financial year ended 31 December 2011 (2010: Nil).

17 INVESTMENT IN SUBSIDIARIES/DUE FROM SUBSIDIARY

	Company 2011 RMB'000	2010 RMB'000
(a) Investment in Subsidiaries		
Unlisted shares, at cost	**869,696**	869,696
(b) Due from Subsidiary		
Due from a subsidiary (Note i)	**175,183**	132,472
Loan to a subsidiary (Note ii)	**301,856**	296,256
	477,039	428,728

Notes:

(i) The amount due from a subsidiary is unsecured and interest-free with repayment neither planned nor likely to occur in the foreseeable future. As it is impractical to determine the term of repayment, the amount due from a subsidiary has been stated at cost.

(ii) The loan to a subsidiary bear interest at rates ranging from 2% to 5% per annum and are to be repaid in full by 2015. The fair value of the loan is not significantly different from its carrying amount based on discounting expected future cash flows at market lending rates of an equivalent instrument as at the date of the statement of financial position.

As at the date of the statement of financial position, the Company has direct and indirect interests in the following subsidiaries:

Name of company	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2011 %	2010 %	Principal activities
Beijing Healthcare Technology Co., Ltd[1] ("Beijing Healthcare")	PRC	US$10,000,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre-mix), sale of self-made products, provision of technical services and consultation relating to animal drugs, and transfer of self-developed technique
Beijing Jianxiang Hemu Biological Technology Limited[2] ("Beijing Jianxiang Hemu")	PRC	RMB3,000,000	**100**	100	Research and development
Evanton Pte. Ltd. ("Evanton")	Singapore	S$800,001	**100**	100	Investment holding
Hebei Biwei Science Technology Co., Ltd[1] ("Hebei Biwei")	PRC	US$3,060,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products
Hebei Qingshanhong Animal Medicine Company Limited[3] ("Hebei Qingshanhong")	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products

17 INVESTMENT IN SUBSIDIARIES/DUE FROM SUBSIDIARY *(continued)*

Name of company	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2011 %	2010 %	Principal activities
Hebei Geruisi Animal Medicine Company Limited[3] ("Hebei Geruisi")	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Hebei Runshengzhongfu Animal Medicine Company Limited[3] ("Hebei Runshengzhongfu")	PRC	RMB36,000,000	**100**	100	Research, development and manufacture of animals drugs (powder, pre-mixed and injection), and sale of self-made products
Inner Mongolia Bigvet Biotech Co., Ltd.[2,4] ("Bigvet Biotech")	PRC	RMB125,000,000	**60**	60	Research, development and manufacture of animal drugs
Longyao Qingshanhong Animal Medicine Company Limited[2,5] ("Longyao Qingshanhong")	PRC	RMB3,000,000	**100**	—	Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products
Shanxi Longkeer Biological Pharmaceutical Co., Ltd[2] ("Shanxi Longkeer")	PRC	RMB42,600,000	**72.16**	72.16	Research, development and manufacture of animal biological drugs and vaccines
Shenzhou Pagina-kang Technology Co., Ltd[1] ("Shenzhou Pagina-kang")	PRC	US$8,000,000	**100**	100	Research, development and manufacture and sale of animal drugs (oral solution and powder), and provision of technical services and consultation relating to animal drugs
Shijiazhuang Aoxin Animal Medicine Company Limited[3] ("Shijiazhuang Aoxin")	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of animal drugs (oral solution of self-made products, and wholesale and commission agency of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Shijiazhuang Keruida Animal Medicine Company Limited[3] ("Shijiazhuang Keruida")	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals

17 INVESTMENT IN SUBSIDIARIES/DUE FROM SUBSIDIARY *(continued)*

Name of company	Place of incorporation/ establishment/ registration and operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2011 %	2010 %	Principal activities
Shijiazhuang Lixinkang Animal Medicine Company Limited[3] ("Shijiazhuang Lixinkang")	PRC	RMB500,000	**100**	100	Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Shijiazhuang Greenxinkang Animal Medicine Company Limited[3] ("Shijiazhuang Greenxinkang")	PRC	RMB500,000	**100**	100	Research, development and manufacture of animal feed, sales of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals
Shijiazhuang Maidisenda Animal Medicine Company Limited[3] ("Shijiazhuang Maidisenda")	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder and granules), and sale of self-made products
Shijiazhuang Sikede Animal Medicine Company Limited[2] ("Shijiazhuang Sikede")	PRC	RMB34,400,000	**100**	100	Research, development and manufacture of animal drugs (powder for injection), and sale of self-made products

All the subsidiaries are audited by Moore Stephens LLP, Singapore for the purpose of consolidation.

1 These companies were established in the PRC in the form of wholly foreign-owned enterprise.

2 These companies were established in the PRC in the form of domestic-invested company.

3 These companies were established in the PRC in the form of sino-foreign equity joint venture enterprise.

4 In January 2011, the Group injected an addition capital contribution of RMB56,995,000 into Bigvet Biotech while the non-controlling interests injected RMB38,005,000. As at 31 December 2011, the Group had made capital contributions of approximately RMB74,995,000 to the total registered and paid-up capital of Bigvet Biotech.

5 On 21 October 2011, the wholly-owned subsidiary was incorporated by the Group with a registered and paid-up capital of RMB3,000,000.

18 INVENTORIES

	Group 2011 RMB'000	2010 RMB'000
Raw materials	**11,023**	4,517
Finished goods	**21,513**	9,886
Packing materials	**1,533**	679
	34,069	15,082

The cost of inventories sold recognised as "cost of sales" amounted to RMB218,106,000 during the financial year ended 31 December 2011 (2010: RMB142,514,000).

19 TRADE RECEIVABLES

	Group 2011 RMB'000	2010 RMB'000
Trade receivables from third-parties	**97,744**	56,733
Less: Allowance for impairment losses	**(120)**	(120)
	97,624	56,613

The Group only grants the credit terms from 30 to 180 days to large-scale poultry enterprises and varies on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers. The Group's sales to animal drug retail customers are mainly on cash-on-delivery basis. The Group trades only with recognised and creditworthy third-parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is minimised.

19 TRADE RECEIVABLES *(continued)*

(a) Ageing analysis

The aged analysis of trade receivables, which is based on invoices dates, (net of allowance for impairment), is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
0–30 days	**26,352**	8,382
31–90 days	**19,138**	13,056
91–180 days	**26,661**	21,067
181–365 days	**25,473**	14,087
Over 365 days	**—**	21
	97,624	56,613

(b) Trade receivables that are past due but not impaired

The Group had trade receivables amounting to RMB25,473,000 (2010: RMB14,108,000) that are past due as at 31 December 2011, but not impaired. These receivables are unsecured and the analysis of their aging at the end of the financial year is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 181 to 365 days	**25,473**	14,087
More than 365 days	**—**	21
	25,473	14,108

(c) Movements on the Group's allowance for trade receivables are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
At beginning and end of the year	**120**	120

The trade receivables at the end of the financial year were denominated in Renminbi.

20 PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Advances to suppliers	**3,306**	3,887
Deposit for purchases of plant and equipment	**2,473**	—
Deposit for tender bidding exercises	**2,921**	—
Sundry debtors	**1,080**	1,210
Prepaid expenses	**21**	35
	9,801	5,132

21 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**730,180**	489,095	**45,343**	108,875
Pledged deposits (Note 24(b))	**(25,998)**	(4,000)	**—**	—
Cash and cash equivalents of Group as per consolidated statement of cash flows	**704,182**	485,095	**45,343**	108,875

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposit was made for varying periods of between one month and three months depending on the immediate cash requirements of the Group, and earned interest at the relevant short-term deposit rate.

22 TRADE PAYABLES

	Group 2011 RMB'000	Group 2010 RMB'000
Trade payables to third-parties	**17,724**	4,339

The ageing analysis of the trade payables, which is based on the invoice dates, is as follows:

	Group 2011 RMB'000	Group 2010 RMB'000
0–30 days	**7,040**	3,696
31–90 days	**3,420**	228
91–180 days	**404**	40
181–365 days	**3,713**	8
Over 365 days	**3,147**	367
	17,724	4,339

The trade payables at the end of the financial year were denominated in Renminbi.

23 OTHER PAYABLES AND ACCRUED CHARGES

	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
Accrued expenses	**11,123**	14,918	**5,325**	14,182
VAT and other taxes	**10,270**	8,367	**—**	—
Due to a subsidiary[1]	**—**	—	**1,682**	1,505
Due to a former related company[2]	**—**	8,110	**—**	—
Due to a former shareholder[2]	**2,627**	2,627	**—**	—
Payables for construction of production facilities	**—**	12,598	**—**	—
Accrued interest	**—**	653	**—**	—
Sundry creditors	**1,132**	1,252	**—**	—
	25,152	48,525	**7,007**	15,687

1 The amount due to a subsidiary is non-trade in nature, unsecured, interest-free and repayable on demand.

2 The amounts due to a former related company and a former shareholder of Bigvet Biotech were/are non-trade in nature, unsecured, interest-free and repayable on demand. The former shareholder of Bigvet Biotech has a beneficial interest in the former related company.

24 BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current:				
Secured				
RMB term loans	**77,984**	20,000	**–**	–

The RMB term loans are repayable in full within the next twelve months from the end of the financial year.

(a) The interest rates at the end of the financial year were as follows:

	2011		2010	
	RMB'000	**Interest**	RMB'000	Interest
Variable rate borrowings	**77,984**	**Not lower than the daily Benchmark Borrowing Rate of the People's Bank of China**	20,000	0.45% over the Benchmark Borrowing Rate of the People's Bank of China

(b) The borrowings are secured by the pledge of securities as follows:

As at 31 December 2011, the RMB term loans of approximately RMB78.0 million were secured on i) a corporate guarantee of approximately US$16.5 million from the Company, ii) a corporate guarantee of approximately RMB60.0 million from Shenzhou Pagina-kang, iii) a corporate guarantee of approximately RMB40.0 million from Bigvet Biotech; and iv) a pledge of approximately RMB26.0 million of bank deposits (Note 21).

As at 31 December 2010, the RMB term loans of approximately RMB20.0 million were secured on i) a corporate guarantee of approximately US$8 million from the Company, ii) a corporate guarantee of approximately RMB50.0 million from Shenzhou Pagina-kang, iii) a corporate guarantee of approximately RMB20.0 million from Bigvet Biotech; and iv) a pledge of approximately RMB4.0 million of bank deposits (Note 21).

25 CONVERTIBLE BONDS/DERIVATIVE FINANCIAL INSTRUMENTS

On 2 July 2010, the Company had entered into a subscription agreement (the "Subscription Agreement") with BCP/CAH Holdings (Cayman) L.P. (the "Investor"), an exempted limited partnership incorporated under the laws of the Cayman Islands, and advised by a subsidiary of The Blackstone Group. Pursuant to the Subscription Agreement, the Company agreed to issue convertible bonds (the "Convertible Bonds") and allot and issue of shares (the "Placement Shares"). Both issuance of the Convertible Bonds and the Placement Shares were completed on 11 August 2010.

The Convertible Bonds are zero-coupon with principal amounts of US$40.0 million and mature on 10 August 2015 (the "Maturity Date"). The Convertible Bonds have a conversion period at any time commencing from 1 January 2012 up to five business days before the Maturity Date, and will be converted into shares at a price S$0.40.

The holders of the Convertible Bonds shall be entitled, within the period of 4 weeks commencing on 31 December 2012, to require the Company to redeem the Convertible Bonds at a redemption price equal to the principal amount plus a redemption premium of 15% per annum (on a simple, non-compounding basis, based on a 365 day year and actual days elapsed) on such principal amount.

In case of event of defaults as specified in the terms and conditions of the Convertible Bonds, the holders of the Convertible Bonds may require the Company to redeem the Convertible Bonds at a redemption price equal to the principal amount plus a redemption premium of 20% per annum (compounded monthly and based on a 365-day year and actual days elapsed) on such principal amount.

25 CONVERTIBLE BONDS/DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The carrying amounts of the liability component and derivative component of the Convertible Bonds as at year end and the movement thereon during the financial year are as follows:

	Group and Company	
	Liability component	Derivative component
	RMB'000	RMB'000
At 1 January 2011	**104,661**	**153,174**
Interest at amortised cost	**22,762**	**—**
Change in fair value	**—**	**(38,432)**
Exchange realignment	**(5,100)**	**(5,655)**
At 31 December 2011	**122,323**	**109,087**
At initial recognition upon issue	98,928	169,703
Interest at amortised cost	8,510	—
Change in fair value	—	(12,003)
Exchange realignment	(2,777)	(4,526)
At 31 December 2010	104,661	153,174

The Convertible Bonds contain two components, liability component and derivative component (comprising the conversion option and the redemption option). The derivative is carried at fair value with changes in fair value recognised in profit or loss in the consolidated statement of comprehensive income.

The fair value of the derivative component of the Convertible Bonds was determined based on the valuation carried out by an independent firm of valuers using the Binomial Option Pricing Model. The key inputs used in the model are as follows:

	2011	2010
Singapore share price (S$)	**0.230**	0.360
Hong Kong share price (HK$)	**1.41**	2.22
Expected volatility (%)	**42.1**	43.6
Risk free interest rate (%)	**0.48**	1.29
Expected dividend yield (%)	**1.86**	1.18

Any changes in the key inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the derivative component during the financial year ended 31 December 2011 resulted in a fair value gain of RMB38,432,000 (2010: RMB12,003,000), which was recorded as "Change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

The initial carrying amount of the liability component is the residual amount after deducting the issuance costs of the Convertible Bonds and the fair value of the derivative component as at 11 August 2010, and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 22.4%.

26 SHARE CAPITAL

(a) Authorised Ordinary Share Capital of the Company

	Company Number of ordinary shares of HK$0.10 each	RMB'000
At beginning and end of the year	2,500,000,000	233,849

(b) Issued Ordinary Share Capital

	Group		Company	
	Number of ordinary shares of HK$0.10 each	RMB'000	Number of ordinary shares of HK$0.10 each	RMB'000
At 1 January 2010	1,558,390,625	76,192	1,558,390,625	144,244
Share placement to the Investor (i)	20,000,000	1,747	20,000,000	1,747
Shares awarded under the Performance Share Scheme (ii)	13,000,000	1,136	13,000,000	1,136
At 31 December 2010, 1 January 2011 and 31 December 2011	1,591,390,625	79,075	1,591,390,625	147,127

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

(i) As set out in Note 25, the Company had agreed to issue Convertible Bonds and allot and issue of Placement Shares pursuant to the Subscription Agreement entered into between the Company and the Investor.

The Placement Shares were issued for an aggregate consideration of S$7.0 million at the issue price of S$0.35 per Placement Share. On completion of the subscription on 11 August 2010, 20,000,000 ordinary new shares of HK$0.10 each were issued and allotted to the Investor. Consequently, the total issued share capital of the Company increased from 1,558,390,625 to 1,578,390,625 shares, raising net proceeds of RMB34,319,000. The shares issued rank pari passu in all respects with the then existing shares of the Company.

26 SHARE CAPITAL *(continued)*

(b) Issued Ordinary Share Capital *(continued)*

(ii) On 23 August 2010, the Company had awarded 13,000,000 new ordinary shares of HK$0.10 each to 223 employees (including directors and other key management personnel) under the Performance Share Scheme, details of which are set out in Note 27. Consequently, the total issued share capital of the Company increased from 1,578,390,625 to 1,591,390,625 shares, and the share-based payments expense of these shares awarded amounted to RMB19,201,000. The shares issued rank pari passu in all respects with the then existing shares of the Company.

27 PERFORMANCE SHARE SCHEME

The Company had adopted a Performance Share Scheme (the "Performance Share Scheme") which become effective on 15 April 2010 (the "Adoption Date"). The purpose of the Performance Share Scheme is to provide an opportunity for group employees (including Group Executive Directors) who have met the performance targets to be remunerated through an equity stake in the Company and/or when due recognition should be given to any good work performance and/or significant contribution to the Group. The Performance Share Scheme aims to motivate and incentivise participants to greater dedication, loyalty and higher standards of performance.

The Performance Share Scheme is administered by the Remuneration Committee of the Company. Under the Performance Share Scheme, the Remuneration Committee of the Company are authorised, at any time within ten years after the Adoption Date, to grant share in any one financial year which shall not exceed 1% of the total number of issued shares of the Company (excluding treasury shares) on the day preceding the relevant date of the granted shares. Furthermore, the aggregate number of shares over which the Remuneration Committee may grant shares on any date, when added to the number of shares issued and issuable in respect of all shares granted under the Performance Share Scheme and all other shares issued and issuable under any other share-based incentive schemes of the Company for the time being in force, shall not exceed 10% of the total number of issued shares of the Company (excluding treasury shares) on the day preceding that date.

On 23 August 2010, the Company had granted and awarded 13,000,000 shares to 223 employees (including directors and other key management personnel) pursuant to the Performance Share Scheme, and the share-based payments expense of these shares awarded amounted to RMB19,201,000.

There are no shares granted or awarded under the Performance Share Scheme during the current financial year.

28 RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

Share premium

The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda (as amended). The balance is not available for distribution of dividends except in the form of shares.

28 RESERVES *(continued)*

(a) Group *(continued)*

Merger reserve

Merger reserve represents the premiums paid for the considerations pursuant to the group restructuring in 2007.

Reserve fund

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Group in the PRC are required to set aside a statutory reserve fund by way of appropriation 10% of their profit after tax as reported in the PRC statutory financial statements each year.

The statutory reserve fund may be used to offset any accumulated losses or increase the registered capital of the subsidiaries, subject to approval from the relevant PRC authorities. The appropriation is required until the cumulative total of the statutory reserve fund reaches 50% of the subsidiary's registered capital. This reserve is not available for dividend distributable to shareholders.

(b) Company

	Share premium RMB'000	(Accumulated losses) RMB'000	Total RMB'000
At 1 January 2011	**1,061,643**	**(74,993)**	**986,650**
Total comprehensive income for the year	**—**	**54,895**	**54,895**
Dividends	**—**	**(35,011)**	**(35,011)**
At 31 December 2011	**1,061,643**	**(55,109)**	**1,006,534**
At 1 January 2010	1,011,006	(13,706)	997,300
Total comprehensive loss for the year	—	(30,119)	(30,119)
Dividends	—	(31,168)	(31,168)
Issuance of shares pursuant to placement	33,302	—	33,302
Shares issue expense	(730)	—	(730)
Shares awarded under the Performance Share Scheme	18,065	—	18,065
At 31 December 2010	1,061,643	(74,993)	986,650

29 ACQUISITIONS

(i) Acquisition of Bigvet Biotech

In May 2010, the Group had completed the acquisition of 60% equity interest in Bigvet Biotech for a consideration of RMB288,000,000. The acquisition of Bigvet Biotech was to expand the Group's biological animal drugs product range to include vaccines for animal foot-and-mouth disease.

The business combination was accounted for using the acquisition method. The fair values of the identifiable assets and liabilities of Bigvet Biotech as at the date of acquisition were:

	Carrying amount before combination RMB'000	**Fair value** RMB'000
Property, plant and equipment[1]	144,941	148,683
Land use right[1]	6,125	8,200
Intangible assets[2]	11,500	471,500
Inventories	942	942
Prepayments and other receivables	3,558	3,558
Cash and cash equivalents	169	169
Other payables and accrued charges	(40,833)	(40,833)
Borrowings	(42,000)	(42,000)
Loan payable to Shenzhou Pagina-kang (Note 20(b))	(70,000)	(70,000)
Deferred taxation	—	(116,455)
	14,402	363,764
Less: Non-controlling interests (40%)[3]		(145,505)
		218,259
Goodwill on consolidation (Note 16)		69,741
Cash consideration paid		288,000
Less: Deposit paid		(193,000)
Cash and cash equivalents of the subsidiary acquired		(169)
Net cash outflow on acquisition		94,831

1 The fair value of property, plant and equipment and land use rights was based on the valuation by an independent firm of valuers based on the open market value.

2 The fair value of the intangible assets acquired was determined based on the valuation carried out by an independent firm of valuers using the income approach. This valuation model employed a discounted cash flow analysis using the presented value of the estimated after-tax cash flows expected to be generated from the intangible assets. The key inputs to the valuation model included: a) 10 years cash flow forecast projection, b) average growth rate in revenue ranging from 10% to 40%, c) average gross margin of 60%, and d) discount rate of 16%.

29 ACQUISITIONS *(continued)*

(i) Acquisition of Bigvet Biotech *(continued)*

[3] The Group had elected to measure the non-controlling interests at the non-controlling interests' proportion share of Bigvet Biotech's identifiable net assets.

(ii) Acquisition of Beijing Jianxiang Hemu

In June 2010, the Group had completed the acquisition of 100% equity interest in Beijing Jianxiang Hemu for a consideration of RMB210,000,000. The acquisition of Beijing Jianxiang Hemu was to expand the Group's biological animal drugs product range to include vaccines for porcine reproductive and respiratory syndrome.

The business combination was accounted for using the acquisition method. The fair values of the identifiable assets and liabilities of Beijing Jianxiang Hemu as at the date of acquisition were:

	Carrying amount before combination RMB'000	**Fair value** RMB'000
Intangible assets[1]	—	210,000
Cash and cash equivalents	65	65
Deferred taxation	—	(52,500)
	65	157,565
Goodwill on consolidation (Note 16)		52,435
Cash consideration paid		210,000
Cash and cash equivalents of the subsidiary acquired		(65)
Net cash outflow on acquisition		209,935

[1] The fair value of the intangible assets acquired was determined based on the valuation carried out by an independent firm of valuers using the income approach. This valuation model employed a discounted cash flow analysis using the presented value of the estimated after-tax cash flows expected to be generated from the intangible assets. The key inputs to the valuation model included: a) 10 years cash flow forecast projection, b) average growth rate in revenue ranging from 10% to 40%, c) average gross margin of 60%, and d) discount rate of 16%.

Goodwill arising from acquisitions

The goodwill arising from the acquisitions comprised the value of expected future revenue growth, market development and strengthening of the Group's market position through the expansion of the Group's biological animal drugs product range. None of the goodwill arising from the acquisitions was expected to be deductible for tax purposes.

29 ACQUISITIONS *(continued)*

(ii) Acquisition of Beijing Jianxiang Hemu *(continued)*

Acquisition-related costs

Acquisition-related costs were insignificant and had been recognised as an expense in the previous financial year, within the "Administrative expenses" line item in the consolidated statement of comprehensive income.

Impact of acquisitions on the results of the Group

Included in the profit for the financial year ended 31 December 2010 was loss of RMB7.0 million incurred by Bigvet Biotech and profit of RMB5.2 million made by Beijing Jianxiang Hemu since the acquisition date.

Had these business combinations been effected at 1 January 2010, the revenue of the Group would had been remained unchanged, and the profit of the Group attributable to owners of the Company for the financial year ended 31 December 2010 would had been RMB110.8 million.

30 RELATED PARTY TRANSACTIONS

Other than disclosed in Note 23, the Group also had the following related party transactions during the financial years ended 31 December 2011 and 2010:

(a) Compensation of Key Management Personnel

The remuneration of the directors and senior personnel, who are the key management personnel of the Group, are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Directors' fees	**1,313**	965
Salaries, bonuses and other short-term benefits	**6,639**	5,065
Contributions to defined contributions plans	**162**	144
Share-based payments expense (Performance Share Scheme) (Note 27)	**–**	2,363
	8,114	8,537
Comprise amounts paid to:		
Directors of the Company	**5,847**	4,086
Key management personnel	**2,267**	4,451
	8,114	8,537

30 RELATED PARTY TRANSACTIONS *(continued)*

(a) Compensation of Key Management Personnel *(continued)*

During the financial year ended 31 December 2011, no shares were granted or awarded under the Performance Share Scheme.

During the financial year ended 31 December 2010, 300,000 shares were granted and awarded to one of the Company's Executive Directors pursuant to the Performance Share Scheme. As at year end, there were no outstanding awards of shares granted to the Executive Directors under the Performance Share Scheme.

(b) Related Party Transactions

	Group	
	2011	2010
	RMB'000	RMB'000
Rental expense paid to		
— Shijiazhuang Maidisen Animal Healthcare	**4,100**	3,990
— Beijing Haichenruian	**4,000**	3,266
— Shenzhou Pagina Animal Drug	**700**	697

The directors represented that the above transactions were conducted in the ordinary and usual course of the Group's business and in accordance with the terms of the agreements governing these transactions. The above entities are companies with common shareholders/directors of the Group.

31 COMMITMENTS

(a) Operating Lease Commitments

The Group had entered into several operating lease commitments for its production and office premises, and staff hostels with related parties for years between 1.5 years and 3 years with renewable options and no restrictions were placed upon the Group by entering into these leases.

At the end of the financial year, the future minimum rental payable under these non-cancellable operating leases are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**8,800**	8,800
Between two to five years, inclusive	**—**	8,800
	8,800	17,600

31 COMMITMENTS *(continued)*

(b) Capital Commitments

	Group	
	2011	2010
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment		
— contracted for but not provided in the financial statements	**3,927**	2,900

32 SEGMENT REPORTING

For management purposes, the Group is organised into four reportable segments based on their products as the Group's risks and rates of return are affected predominantly by differences in the products produced. Each reportable segment represents a strategic business unit that offers different forms of animal drug products. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

The accounting policies of the reportable segments are the same as the Group's accounting policies discussed in Note 3. Segment results represent the profit earned by each segment without allocation of corporate expenses, finance income/costs and taxation. Segment assets and liabilities include items directly attributable to a segment. Unallocated assets and liabilities mainly comprised corporate assets and liabilities that cannot be directly attributable to a particular operating segment. In addition, group financing and income taxes are managed on a group basis and are not allocated to operating segments. No operating segments have been aggregated to form the following reportable operating segments.

32 SEGMENT REPORTING *(continued)*

(a) Reportable Segments

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2011				
Revenue	475,270	35,548	257,306	768,124
Segment results	214,440	14,835	60,727	290,002
Unallocated expenses, net				35,564
Financial expenses, net				(23,448)
Profit before taxation				302,118
Taxation				(73,214)
Profit for the year				228,904
Segment assets	556,560	58,910	1,166,274	1,781,744
Unallocated assets:				
— deferred tax assets				5,100
— cash and cash equivalents				45,663
Total assets				1,832,507
Segment liabilities	13,300	698	23,552	37,550
Unallocated liabilities				
— other payables				5,326
— derivative financial instruments				109,087
— convertible bonds				122,323
— borrowings				77,984
— income tax liabilities				17,777
— deferred tax liabilities				161,343
Total liabilities				531,390
Capital expenditure				
— property, plant and equipment	173	—	14,989	15,162
Depreciation of property, plant and equipment	1,698	136	13,526	15,360
Amortisation of production technology rights	3,000	—	59,333	62,333
Amortisation of seed strains	—	—	1,200	1,200
Amortisation of land use rights	—	—	413	413

32 SEGMENT REPORTING *(continued)*

(a) Reportable Segments *(continued)*

	Powdered form drugs RMB'000	Injection form drugs RMB'000	Biological drugs RMB'000	Total RMB'000
2010				
Revenue	411,091	33,848	145,574	590,513
Segment results	186,177	14,686	59,907	260,770
Unallocated expenses, net				(58,324)
Financial expenses, net				(8,641)
Profit before taxation				193,805
Taxation				(64,129)
Profit for the year				129,676
Segment assets	362,087	5,190	1,109,669	1,476,946
Unallocated assets:				
— deferred tax assets				4,700
— cash and cash equivalents				109,271
Total assets				1,590,917
Segment liabilities	9,803	740	28,139	38,682
Unallocated liabilities				
— other payables				14,182
— derivative financial instruments				153,174
— convertible bonds				104,661
— borrowings				20,000
— income tax liabilities				19,439
— deferred tax liabilities				171,560
Total liabilities				521,698
Capital expenditure				
— property, plant and equipment	1,833	—	4,806	6,639
— land use rights	—	—	8,200	8,200
Depreciation of property, plant and equipment	1,624	151	8,733	10,508
Amortisation of production technology rights	3,000	—	12,250	15,250
Amortisation of seed strains	—	—	700	700
Amortisation of land use rights	—	—	344	344

32 SEGMENT REPORTING *(continued)*

(b) Geographical segments

There is no geographical segment information provided as the Group operates predominantly in the PRC only.

(c) Information about major customers

There is no customer who represents more than 10% of the total sales of the Group for the financial years ended 31 December 2011 and 2010.

33 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments	**1,125**	1,125	**—**	—
Loans and receivables				
— Trade receivables	**97,624**	56,613	**—**	—
— Deposits	**5,394**	—	**—**	—
— Sundry debtors	**1,080**	1,210	**—**	—
	105,223	58,948	**—**	—
Cash and bank balances	**730,180**	489,095	**45,343**	108,875
	835,403	548,043	**45,343**	108,875
Financial liabilities				
At amortised cost				
— Trade payables	**17,724**	4,339	**—**	—
— Due to a subsidiary	**—**	—	**1,682**	1,505
— Due to a former related company	**—**	8,110	**—**	—
— Due to a former shareholder	**2,627**	2,627	**—**	—
— Accrued expenses	**11,123**	14,918	**5,325**	14,182
— Payables for construction of production facilities	**—**	12,598	**—**	—
— Accrued interest	**—**	653	**—**	—
— Sundry creditors	**1,132**	1,252	**—**	—
— Borrowings	**77,984**	20,000	**—**	—
— Convertible bonds	**122,323**	104,661	**122,323**	104,661
	232,913	169,158	**129,330**	120,348
At fair value through profit or loss				
— Derivative financial instruments	**109,087**	153,174	**109,087**	153,174
	342,000	322,332	**238,417**	273,522

33 FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial years, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade receivables, other receivables and cash and cash equivalents.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group's sales to animal drug retail customers are mainly on a cash-on-delivery basis. Credit terms are only granted to large-scale poultry enterprises and vary on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers. The Group trades only with recognised and creditworthy third-parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is minimised.

The Group periodically reviews the credit terms and its customers' payment track record and if necessary, the Group will amend the credit terms it grants to its customers. The Group also closely monitors any outstanding overdue debts and takes measures to collect any outstanding debts due to it.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk in relation to each class of recognised financial assets is represented by the carrying amount of each financial asset as indicated in the statement of financial position.

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Information regarding trade receivables that are either past due or impaired is disclosed in Note 19.

33 FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturity of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. In the management of its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Details on the repayment terms of the Group's borrowings are set out in Note 24.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining year at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Contractual undiscounted cash outflows					
	Less than 1 month or repayable on demand	**1–3 months**	**3 months to 1 year**	**1 to 5 years**	**Total undiscounted cash flows**	**Total carrying amounts**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group						
2011						
Trade payables	**13,561**	**4,163**	**—**	**—**	**17,724**	**17,724**
Other payables	**14,882**	**—**	**—**	**—**	**14,882**	**14,882**
Borrowings	**—**	**—**	**80,819**	**—**	**80,819**	**77,984**
Convertible bonds	**—**	**—**	**—**	**149,693**	**149,693**	**122,323**
Derivative financial instruments	**—**	**—**	**—**	**109,087**	**109,087**	**109,087**
	28,443	**4,163**	**80,819**	**258,780**	**372,205**	**342,000**
2010						
Trade payables	3,762	180	227	170	4,339	4,339
Other payables	40,158	—	—	—	40,158	40,158
Borrowings	—	—	21,152	—	21,152	20,000
Convertible bonds	—	—	—	144,104	144,104	104,661
Derivative financial instruments	—	—	—	153,174	153,174	153,174
	43,920	180	21,379	297,448	362,927	322,332

33 FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

	Contractual undiscounted cash outflows					
	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Total carrying amounts
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company						
2011						
Other payables	**5,325**	**—**	**—**	**—**	**5,325**	**5,325**
Due to a subsidiary	**1,682**	**—**	**—**	**—**	**1,682**	**1,682**
Borrowings	**—**	**—**	**—**	**—**	**—**	**—**
Convertible bonds	**—**	**—**	**—**	**149,693**	**149,693**	**122,323**
Derivative financial instruments	**—**	**—**	**—**	**109,087**	**109,087**	**109,087**
	7,007	**—**	**—**	**258,780**	**265,787**	**238,417**
2010						
Other payables	14,182	—	—	—	14,182	14,182
Due to a subsidiary	1,505	—	—	—	1,505	1,505
Borrowings	—	—	—	—	—	—
Convertible bonds	—	—	—	144,104	144,104	104,661
Derivative financial instruments	—	—	—	153,174	153,174	153,174
	15,687	—	—	297,278	312,965	273,522

The contractual expiry by maturity of the Company's financial guarantees (see Note 24(b)) amounting to US$16.5 million (2010: US$8 million) is less than a year based on the allocation of the maximum amount of the financial guarantee contract to the earliest period in which the guarantee could be called on.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its interest-bearing borrowings. Information relating to the Group's interest rate exposure is disclosed in Note 24 on the Group's borrowings.

33 FINANCIAL INSTRUMENTS *(continued)*

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

Interest rate risk (continued)

The Group usually obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available. Surplus funds are placed with reputable banks.

The sensitivity analysis to a reasonably possible change in interest rates with all other variables held constant, of the Group's profit before taxation has not been disclosed as the Group's exposure to changes in market interest rates is not significant.

Foreign currency risk

The Group's sales and purchases are mainly denominated in RMB, which is the functional currency of the Group. Accordingly, the Group's trade receivable and trade payable balances at the end of each reporting year are also denominated in RMB. Transactional currency exposures arising from sales or purchases that are denominated in other currencies are not significant.

As at year end, other than the convertible bonds which are denominated in United States Dollar, the Group and the Company hold cash and short term deposits denominated in foreign currencies for working capital purposes. At the end of the financial year, such foreign currency balances are mainly in Singapore Dollar ("SGD") and United States Dollar ("USD").

Convertible bonds are denominated in USD are as follow:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Liability component	**122,323**	104,661	**122,323**	104,661
Derivative component	**109,087**	153,174	**109,087**	153,174
	231,410	257,835	**231,410**	257,835

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**706,490**	406,238	**26,499**	26,414
SGD	**7,641**	34,372	**7,427**	33,983
USD	**15,753**	48,485	**11,121**	48,478
HKD	**296**	—	**296**	—
	730,180	489,095	**45,343**	108,875

33 FINANCIAL INSTRUMENTS *(continued)*

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

Foreign currency risk (continued)

Management monitor the fluctuation in exchange rates closely to ensure that the Group's exposure to the risk is minimised. Swap transactions may be entered into to hedge cash flow risks arising from exposure to foreign exchange fluctuations from its foreign currency denominated term loans.

A 5% (2010: 5%) strengthening of SGD and USD against the RMB as at the balance sheet date would increase/(decrease) the Group's profit before tax by the amounts shown as below. This analysis assumes that all other variables remain constant.

	2011	2010
	Increase/(Decrease)	
Group	**RMB'000**	RMB'000
RMB vs SGD	**382**	1,719
RMB vs USD	**(10,783)**	(10,468)

A 5% (2010: 5%) strengthening of SGD and USD against the RMB as at the balance sheet date would (increase)/decrease the Company's profit or loss before tax by the amounts shown as below. This analysis assumes that all other variables remain constant.

	2011	2010
	(Increase)/Decrease	
Company	**RMB'000**	RMB'000
RMB vs SGD	**371**	1,691
RMB vs USD	**(11,014)**	(10,468)

33 FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value

Fair value of financial instruments that are carried at fair value

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

	Group			
	Quoted prices in actives markets for identical instruments (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
2011				
Financial liabilities				
Derivative financial instruments (Note 25)	**—**	**109,087**	**—**	**109,087**
2010				
Financial liabilities				
Derivative financial instruments (Note 25)	—	153,174	—	153,174

The fair value of the derivative financial instruments was determined based on a valuation carried out by an independent firm of valuers using the Binomial Option Pricing Model which uses various inputs that are mainly based on market conditions.

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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 inputs)

33 FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

Fair value of financial instruments that are carried at fair value *(continued)*

Fair value hierarchy (continued)

There have been no transfers between Level 1 and Level 2 during the financial years ended 31 December 2011 and 2010.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of the Group's current financial assets and current financial liabilities, namely trade receivables and payables, other receivables and payables and accrued charges and short-term borrowings are reasonable approximation of fair values due to their short-term nature.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Fair value information has not been disclosed for the Group's available-for-sale investments that are carried at cost because fair value cannot be measured reliably as disclosed in Note 14. This investment represents equity interest in a PRC company that is not quoted on any market and does not have comparable industry peer that is listed. The Group does not intend to dispose of this investment in the foreseeable future.

34 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial year.

The Group's subsidiaries in the PRC are required to contribute to and maintain a non-distributable statutory reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the relevant subsidiaries during the financial year.

The Group monitors capital using a Net debt to equity ratio, which is total borrowings (including convertible bonds and derivative financial instruments) divided by total equity. The Net debt to equity ratio at the end of the financial year is as follow:

	2011	2010
Net debt to equity ratio	**0.24**	0.26

Statistics of Shareholdings
as at 29 February 2012

Name of Substantial Shareholder	Shareholdings registered in the name of substantial shareholder	Shareholdings held by the substantial shareholders in the name of nominees	Shareholdings in which the substantial shareholders are deemed to be interested	Total	Percentage of issued shares
Li Chunhua(1)	15,913,906	832,860,677	—	848,774,583	53.34
Wang Yangang(2)	—	—	848,774,583	848,774,583	53.34
FMR LLC; FIL Limited and Edward C. Johnson 3d*	—	126,944,000	—	126,944,000	7.98

Notes:

(1) Shares are held in the name of Standard Chartered Bank, Hong Kong.

(2) Mr Wang Yangang is deemed to be interested in the shares held by his spouse, Mdm Li Chunhua.

(*) FMR LLC, FIL Limited and Edward C. Johnson 3d are deemed to have an interest in shares acquired by the Registered Holders:
FIDELITY CHINA SPECIAL SIT PLC
FID FDS — ASEAN POOL
FID FDS — PACIFIC POOL
FID FDS — SINGAPORE POOL
FA INT SOUTH EAST ASIA SUB
FIJ IT JPN ASIA GROWTH MOTHER
FID KOREA ASEAN EQ IT MTHR
FID PACIFIC BASIN FUND
FID ASIA PACIFIC EX — JAP PLT 2

Statistics of Shareholdings

as at 29 February 2012

Authorised Share capital	:	HK$250,000,000
Issued and fully paid capital	:	HK$159,139,062.50
Number of shares	:	1,591,390,625
Class of shares	:	Ordinary share of HK$0.10 each

VOTING RIGHTS

The Bye-Laws provide for:

(a) on a show of hands: 1 vote
(b) on a poll: 1 vote for each Ordinary Share held

Shareholdings Held in Hands of Public

Based on information available to the Company as at 29 February 2012, approximately 38.62% of the total number of issued shares (excluding treasury shares) in the capital of the Company is held in the hands of the public. Rule 723 of the Listing Manual issued by SGX-ST has therefore been complied with.

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1–999	196	7.20	96,964	0.01
1,000–10,000	711	26.13	5,393,351	0.34
10,001–1,000,000	1,764	64.83	145,139,811	9.12
1,000,001 and above	50	1.84	1,440,760,499	90.53
	2,721	100.00	1,591,390,625	100.00

Statistics of Shareholdings
as at 29 February 2012

TOP 20 SHAREHOLDERS

No.	Name of Shareholder	No. of Shares	%
1	HKSCC Nominees Limited	921,045,677	57.88
2	Raffles Nominees Pte Ltd	118,464,000	7.44
3	HSBC (Singapore) Nominees Pte Ltd	77,488,688	4.87
4	Merrill Lynch (S) Pte Ltd	38,138,000	2.40
5	DBSN Services Pte Ltd	29,343,312	1.84
6	DBS Nominees Pte Ltd	23,431,938	1.47
7	Wang Yongwei	18,719,000	1.18
8	UOB Kay Hian Pte Ltd	16,920,000	1.06
9	Li Chunhua	15,913,906	1.00
10	DBS Vickers Securities (S) Pte Ltd	15,756,500	0.99
11	OCBC Securities Private Ltd	15,648,500	0.98
12	Bank Of Singapore Nominees Pte Ltd	15,107,125	0.95
13	Goh Bee Lan	13,000,000	0.82
14	Phillip Securities Pte Ltd	12,252,500	0.77
15	Aventures 1 Pte Ltd	8,859,375	0.56
16	Asdew Acquisitions Pte Ltd	8,191,000	0.51
17	DB Nominees (S) Pte Ltd	7,649,000	0.48
18	Li Kunyu	6,633,000	0.42
19	Waterworth Pte Ltd	5,000,000	0.31
20	Citibank Nominees Singapore Pte Ltd	4,729,000	0.30
		1,372,290,521	86.23

Five Year Financial Summary

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year Ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**768,124**	590,513	438,289	385,090	274,765
Gross profit	**550,018**	447,999	332,337	287,487	209,589
Profit before tax	**302,118**	193,805	188,563	170,605	74,621
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	**223,095**	119,668	157,895	138,288	58,944
Non-controlling interests	**5,809**	10,008	5,931	4,474	—
	228,904	129,676	163,826	142,762	58,944
Assets and Liabilities					
Total assets	**1,832,507**	1,590,917	825,417	523,357	241,400
Total liabilities	**531,390**	521,698	53,731	71,148	49,446
Equity attributable to owners of the Company	**1,080,668**	892,584	750,564	437,018	191,954

CHINA ANIMAL HEALTHCARE LTD.

(Company Registration No.: 28986)

China Office: No. 6, Kangding Street Beijing Economic and
Technological Development Zone Beijing 100176, PRC

Singapore Office: 61 Robinson Road #13-02 Robinson Centre
Singapore 068893

Hong Kong Office: Level 28 Three Pacific Place
1 Queen's Road East Hong Kong