聯邦制藥國際控股有限公司
The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code: 3933)

Annual Report 2011

Inner Mongolia Factory
Bayannaoer City

Contents

2011 CORPORATE CALENDAR OF THE UNITED LABORATORIES

1 January 2011

The United Laboratories successfully launched its new product USLIN (recombinant human insulin) in the market.

2 February 2011

The United Laboratories was awarded the 2010 Science and Technology Award of Zhuhai City, and was also recognized as a Key Enterprise of Strategic Emerging Industries of Guangdong Province.

The bulk amoxicillin workshop of United Laboratories (Inner Mongolia) Limited passed the GMP certification.

3 March 2011

Bulk Amoxicillin of the United Laboratories manufactured through enzyme production process was successfully launched in the market.

4 April 2011

The United Laboratories ranked among the "Top 100 Brands in Chinese Pharmaceutical Industry of 2011", "Top 10 Export Enterprises in Chinese Pharmaceutical Industry of 2011" and "Top 10 Brands of Anti-infective Products in Chinese Pharmaceutical Industry of 2011".

5 May 2011

The "Seminar on Drug Manufacturing and Quality" was organized by Zhuhai United Laboratories in Zhuhai.

6 June 2011

The United Laboratories' Amoxicillin was recognized as a Chinese Well-known Trademark.

The United Laboratories was the first manufacturer passing the new GMP certification for bacteria-free bulk drugs.

7 July 2011

The United Laboratories ranked No.3 among the "Third Ranking List of Top 20 Chinese Listed Pharmaceutical Companies".

The United Laboratories' Clindamycin phosphate gel received GMP certificate from SFDA.

The United Laboratories was ranked nineteenth among the sixth "Top 100 Enterprises in Chinese Pharmaceutical Industry".

The United Laboratories was awarded the sixth "Capital China-Outstanding Pharmacy Group".

The United Laboratories was awarded the title of "Guangdong Province Excellent Engineering Technology Research and Development Center".

The United Laboratories' Zhongshan Plant passed the on-site inspection and certification by officials from Nigeria's Food and Drug Administration.

Accompanied by Yang Qiuhong, deputy director of the Group's bulk medicine plant in Zhuhai, and Li Shuangjian, manager of our foreign trade department, Peng Wei, vice chairman of the United Laboratories visited Li Haitong, Counselor of the Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in Brazil.

8 August 2011

9 September 2011

A delegation led by Na Shun Meng He from Bayannaoer City, made an inspection visit to the new project of United Laboratories (Inner Mongolia) Limited.

The United Laboratories' products, Amoxicillin and Feidile, were selected as state aid drugs for humanitarian aid in Cambodia.

The two high-speed fully automatic capsule production lines imported by Guangdong Kaiping Kingly Capsules Limited had been installed and commenced trial operation.

Accompanied by senior officials from the Economic and Information Commission of Guangdong Province, the Science, Industry, Trade and Information Technology Bureau of Zhuhai City and Jinwan District of Zhuhai, Wang Jianzhong, section chief of MIIT, paid a visit to Zhuhai United Laboratories.

10 October 2011

Accompanied by He Yonglin, Party Secretary of the CPC of Bayannaoer City, Li Pengxin, Director of the Organization Department of CPC Inner Mongolia Autonomous Region Committee visited United Laboratories (Inner Mongolia) Limited.

11 November 2011

12 December 2011

The patent project of the United Laboratories was awarded the Science and Technology Award of Zhuhai. The method for production of compound preparation composing Amoxicillin sodium and clavulanate potassium, which was developed by the United Laboratories, was awarded Gold Prize for Patent Projects. The technology development and industrialization project of recombinant insulin glargine was approved as one of the major projects of Zhuhai City Strategic Emerging Industries of 2011.

During the reporting year, The United Laboratories has granted a total of scholarships of RMB1,530,000 through the United Laboratories Medical Education Scholarship and the United Laboratories Training Funds for Yong and Middle-aged Pharmacists.

The United Laboratories Limited Zhuhai, as an independent export entity, ranked No. 1 of the list of Chinese antibiotic bulk drug export enterprises in 2011 (with total export value amounting to US$166 million. Besides, United Laboratories (Inner Mongolia) Limited amounting to US$61 million and United Laboratories (Chengdu) Limited amounting to US$43 million ranked eleventh and seventeenth respectively).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(Vice-Chairman and General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping

Non-executive director

Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Mr. Song Ming

COMPANY SECRETARY

Mr. Leung Wing Hon *(CPA)*

AUTHORISED REPRESENTATIVES

Mr. Choy Kam Lok
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

NOMINATION COMMITTEE

Mr. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
HSBC Bank (China) Company Limited,
Guangzhou Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch
Bank of China Limited, Zhuhai Branch

Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

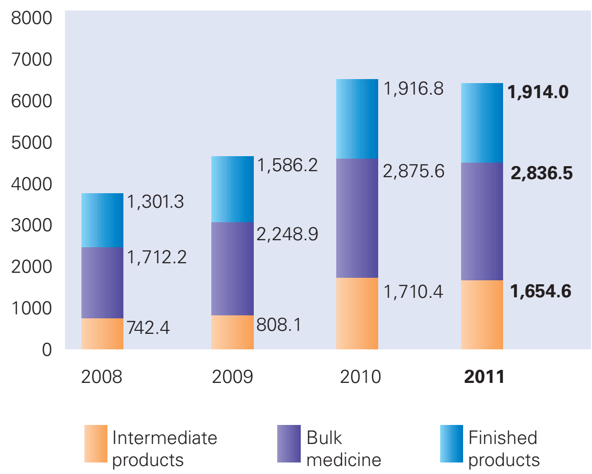
WEBSITES

www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

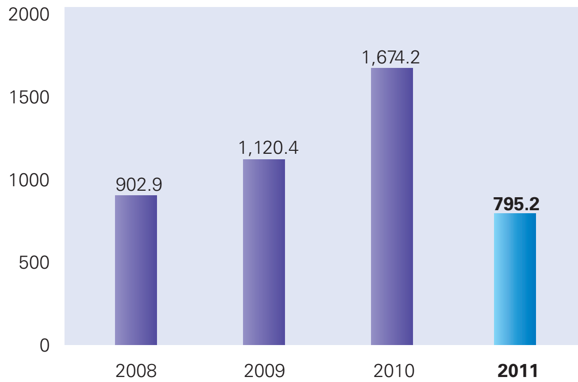
FINANCIAL HIGHLIGHTS

	2011 HK$'000	2010 HK$'000	Decrease %
Turnover	**6,405,039**	6,502,817	1.5%
EBITDA	**795,177**	1,674,224	52.5%
Profit before taxation	**183,189**	1,163,280	84.3%
Profit for the year attributable to owners of the Company	**104,273**	974,157	89.3%
Earnings per share			
Basic (HK cents)	**HK8.0 cents**	HK78.2 cents	89.8%
Diluted (HK cents)	**HK8.0 cents**	HK78.2 cents	89.8%

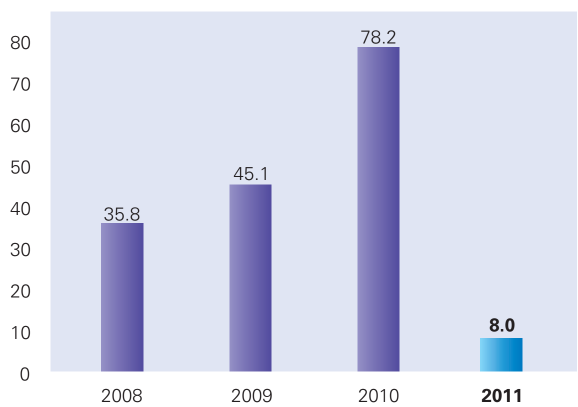
TURNOVER
(HK$ million)



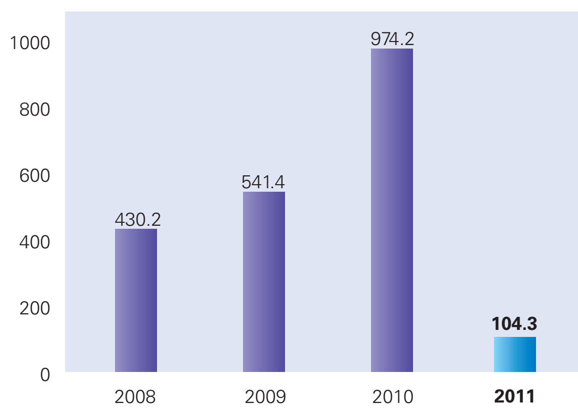
EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)



PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY
(HK$ million)



CHAIRMAN'S STATEMENT

Mr. Choy Kam Lok
Chairman

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2011.

For the year ended 31 December 2011, the Group's turnover amounted to approximately HK$6,410 million, a slight decrease of approximately 1.5% over that of last year. EBITDA and profit before taxation were approximately HK$800 million and HK$180 million respectively, representing a decline of approximately 52.5% and 84.3% over the same period in the previous year, respectively. The profit attributable to owners of the Company was approximately HK$100 million, representing a decrease of 89.3% over the same period in the previous year.

In 2011, on the back of the confusing macro economy and the complex business environment of China's pharmaceutical industry, the Group and the entire domestic pharmaceutical segment were in face of unprecedented challenges as a result of factors including China's stronger regulatory requirements toward the industry and the tender for basic drugs and consequently the full-swing implementation of a new round of price cuts and the policy of "dual control" over healthcare companies and medical insurance, the surge in raw material prices driven by inflation and the European debt crisis associated with uncertainties in the global financial market and rising interest rates. Being a leading enterprise of the industry, United Laboratories steadfastly forged ahead amid changing market conditions and was committed to cost control with the support of its vertically-integrated product mix and production model, economies of scale and brand advantages, while keeping close watch on market trends and making timely adjustments to the business development strategies, constantly developing new products and exploring new markets to solidify its leadership in the industry. The Group's leading edge was apparent in the industry. Our Zhuhai plant received the new national GMP certification in July 2011 and some of our major products were granted the certifications or acceptance of FDA from the US, COS from Europe and GMP from Japan, hence consolidating the industry leading status of the Group.

During the year, several measures were introduced to reinforce the pharmaceutical industry by the national regulatory authorities related to the industry. Price-cutting measures were launched on 28 March, forcing the prices of some antibiotic drugs to decline, while measures taken by the government for restricting the use of antibiotic drugs by healthcare institutions at all levels had a greater impact on high-end antibiotic finished products. As a result, some healthcare institutions took a wait-and-see attitude and postponed their purchasing plans, which led to the continuous decrease in the prices of intermediate and bulk medicine products as well as the decline in the finished product prices to a certain extent. At the same time, given the impact from the rising raw material prices, production cost continued to climb, hence exerting a certain degree of pressure to the overall gross profit margin of the Group.

Nevertheless, the Group actively responded to the challenging business environment of the industry and made appropriate adjustments to its strategies to ensure steady development of its businesses. With the production line of intermediate products in the Inner Mongolia plant coming to a full operation during the year, its contribution to the Group gradually emerged. The Group also actively developed and adopted new production technology to further strengthen its vertical integration and the Inner Mongolia plant succeeded in producing HPGDane salt, one of the raw materials required to produce amoxicillin, which further cut production cost and improved efficiency. Meanwhile, the Group became the world's second pharmaceutical enterprise mastering the production technology of enzymatic amoxicillin API and rolling out the product to the market. Such production technology is ahead of those of the peers. In its production processes, neither sewage nor impurities will be created and less energy is required. The technology has not only reduced the cost but is also compliant with the rising environmental protection standards in China. The newly-built production capacity was also put into operation, effectively matching with the pace of developing the export and domestic distribution markets.

Regarding the rollout of new products, in light of more than 100 million patients suffering from diabetes in China, the main drug, recombinant human insulin, has a national market value of approximately RMB6 billion and is growing rapidly at an annual rate of 20% to 30%. Eyeing the growth potentials of the market, the Group made substantial investments in the development and distribution of relevant products. Given that our new products had completely the same efficacy as that of the imported ones and that the prices were competitive, both the sales and market share of our products developed steadily since the launch in the first half year. Furthermore, the Group had altogether 4 new products awarded the SFDA approval in the past year.

During the year, the Group focused on the development of international market, establishing offices in areas like Brazil, India, Dubai, Indonesia and Germany's Hamburg, and expanding efforts in export sales, which resulted in a higher proportion of overseas sales in the Group's total sales as compared to that of last year. With the continuous increase in demand for intermediate and bulk medicine from the overseas markets in addition to the fact that our products being offered at highly reasonable prices have successively received certifications from all over the world in recent years, we are confident that our export sales will gradually increase and accordingly contribute to the future growth of the Group.

The Group has always upheld and adhered to a prudent financial strategy, optimizing the financial structure and consolidating the working capital base through different financing channels in order to seize investment opportunities in a timely manner. During the year, the Group issued five-years convertible bonds to raise RMB790 million for the purposes of refinancing existing debts, expanding production capacity and further developing our businesses with the aim of maintaining the driving force for the Group's future developments.

According to the report of the World Bank, the current proportion of the medical and healthcare industry in China's GDP is far lower than the average value in the world and this is reflective of the immense room for the growth of the industry. It is expected that, with the announcement of the "Twelfth Five-Year" biomedical planning by the NDRC during the year, the central government will invest more than RMB40 billion in the biomedical industry in the next five years while providing vigorous support to local pharmaceutical enterprises to encourage R&D innovations. It is indicated in the major healthcare guidelines for 2012 as announced by the Ministry of Health in February 2012 that, China will expand the scope of implementation of the basic drug system and make efforts to improve the rural medical system. United Laboratories has already entered the rural markets and the proportion is still on the rise. This is conducive to the growth in the sales of the Group going forward.

Looking ahead, on the back of the favorable policies and a positive environment, the Group is cautiously optimistic toward the prospects of the industry. The Group will continue to expand sales networks, domestic and abroad, and actively explore new markets with growth potentials while strengthening penetration in the existing markets. Moreover, the Group will continue to bring its cutting edge in R&D into play to develop products of high margin and demand. Currently, we have 37 new products being developed, of which 11 products are applying for patent registration and 8 of them was approved for patent registration. The recombinant human insulin products will remain a key product of the Group and the Group will seize the momentum of the fast-growing demand for human insulin by investing substantial resources to capture greater market share. The Group's new insulin products have received relatively high international recognition in terms of quality and production technology and the Group will develop sales market overseas to expand revenue sources. As for intermediate and bulk medicine, the Group will try hard to increase overseas sales and accelerate the penetration of domestic rural markets and communities with the support of its vast sales network, experienced sales team and high brand awareness. At the same time, the Group will focus on driving the sales of the newly-packaged large-sized amoxicillin and ampicillin, enabling them to become new growth drivers boosting the sales of finished products. Through the above effective business strategies the Group is confident that we can achieve the economies of scale in a changing market, taking the lead in the steady development of the industry and ensuring the sustainable development of the Group.

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers and business partners for their full trust and support and to all staff for their persistent efforts to make it possible for United Laboratories grow healthily along the way.

Choy Kam Lok
Chairman

Hong Kong, 27 March 2012

HIGH STANDARD
IN ENVIRONMENTAL INFRASTRUCTURE

High Quality Branded Products Sustain Strong Growth

New Human Insulin Factory at TUL Zhuhai

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2011, the Group's turnover was approximately HK$6,405.0 million, a decrease of 1.5% as compared to last year. The profit attributable to shareholders was approximately HK$104.3 million, representing a decrease of 89.3% as compared to last year. The decrease was mainly due to (i) restricted use of antibiotics medicines and the price reduction policies on finished products launched by the government, (ii) a continued drop in the average selling prices of bulk medicine and intermediate products, (iii) write-down of inventory at year end and (iv) an increase in finance costs as a result of a rise in bank borrowing rates in 2011, and increase in loans and interest accrued on the Group's convertible bonds issued in November 2011. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products decreased 0.8%, 1.6% and 0.1% respectively as compared with last year. Segmental profit of intermediate products, bulk medicine products and finished products decreased by 83.9%, 94.8% and 33.5% respectively as compared with last year.

Reviewing 2011, with the problem of the European debt crisis intensifying in the second half year, the global financial market was in great turmoil and economies within the US were yet to be recovered from the financial crisis, leading to further decline in the demand for all products from the US and European markets. Moreover, the Chinese financial institutions continued to adopt macroeconomic regulation and control measures which resulted in an internal economic contraction in China. Under such double blow, China's enterprises were in face of severe challenges. The Group, given its solid base and the adoption of effective contingency measures, was capable of keeping hold on its leading position in the China and global markets for continuous growth, albeit a substantial decrease in results over the previous year. The Group's operating conditions during the year are summed up in the following points:

Decline in intermediate and bulk medicine product prices

Given the State's introduction of restrictions on antimicrobial agents and price cuts for finished products, prices of intermediate and bulk medicine products continued to decline in the second half year. During the year, the Inner Mongolia plant of the Group was fully put into production, increasing the production capacity for intermediate and bulk medicine products and, coupled with the effective marketing strategies taken by the Group's sales team, further improving the sales of intermediate and bulk medicine products of the Group and accordingly offsetting the adverse impact as a result of price cuts. Therefore, the Group recorded only a modest decrease in the segmental turnover of intermediate products and bulk medicine as compared to last year.

Decrease in gross profit of intermediate and bulk medicine products

During the year, raw material prices and staff salaries continued to rise and hover at high levels, hence increasing operating costs and, in addition to the continuous decline in intermediate and bulk medicine products in the second half year, resulting in the decrease in the overall gross profit of the Group as compared to both the first half year and the previous year and exerting pressure on the Group's results for the second half year.

Increase in finance costs

In the second half of the year, China's financial institutions continued to introduce macroeconomic regulation and control measures and tightened their purse strings. As a result, the overall borrowing and lending interest rates of Chinese banks stayed at high levels and continued to rise through the second half, which increased the finance costs of the Group. The Group issued 7.5% RMB-denominated USD-settled convertible bonds with a principal amount of RMB790,000,000 due in 2016 on 14 November 2011 with the aim of relieving, stabilizing and reducing the finance costs of the Group, hence improving the flow of the Group's working capital. Please refer to the Company's public announcement published on 14 November 2011 for details regarding the convertible bonds.

Growth in export sales of intermediate and bulk medicine products

During the year, the Group developed the international market and established offices in areas like Brazil, India, Dubai, Indonesia and Germany's Hamburg, further expanding the overseas market share of the Group's intermediate and bulk medicine products and increasing the export turnover for the year.

Rollout of recombinant human insulin products

The Group's recombinant human insulin products were officially launched in the market during the year. Given that our products had completely the same efficacy as that of the imported ones and that the prices were competitive, the Group was successful in obtaining orders and securing market shares starting from the year and the bidding at provincial and regional hospitals, which was gradually expanded, was smoothly done during the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had pledged bank deposits, cash and bank balances amounted to HK$1,538.1 million (2010: HK$845.7 million).

As at 31 December 2011, the Group had interest-bearing bank borrowings of approximately HK$3,336.3 million (2010: HK$2,350.1 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$1,831.2 million are fixed rate loans while the remaining balance of approximately HK$1,505.1 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2011, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2011 **HK$'000**	2010 HK$'000
Property, plant and equipment	**847,099**	1,373,311
Prepaid lease payments	**65,227**	111,111
Bills receivables	**118,663**	230,576
Pledged bank deposits	**589,446**	381,624
	1,620,435	2,096,622

As at 31 December 2011, current assets of the Group amounted to approximately HK$5,584.6 million (2010: HK$4,666.0 million). The Group's current ratio was approximately 1.03 as at 31 December 2011, as compared with 1.06 as at 31 December 2010. As at 31 December 2011, the Group had total assets of approximately HK$11,864.9 million (2010: HK$9,607.9 million) and total liabilities of approximately HK$6,688.3 million (2010: HK$4,498.0 million), representing a net gearing ratio (calculated as total borrowings and convertible bonds less pledged deposits and cash and bank balances to total equity) of 53.2% as at 31 December 2011, as compared with 29.4% as at 31 December 2010.

CURRENCY EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

CONTINGENT LIABILITIES

As at 31 December 2010 and 2011, the Group had no material contingent liabilities.

OUTLOOK FOR 2012

Looking into 2012, we expect that the European debt crisis will stay unresolved this year, hence weakening the overall global market and economy, and the world's financial and capital markets will remain fragile and affect China's export performance. The Group's outstanding management will tackle the difficulties ahead with a cautiously optimistic attitude to ensure the continuous growth of the Group. We will continue to develop our businesses on the belief that there is always an opportunity in a crisis.

Price trend for intermediate, bulk medicine and finished products

The Group expects that China's pharmaceutical market will continue to be influenced by national policies and national regulatory authorities may re-launch restrictions on antimicrobial agents and price cuts for finished products, hence product prices will continue to decline. However, on the other hand, the national environmental protection requirements toward the production of pharmaceutical manufacturing enterprises will gradually increase, as a result of which more domestic enterprises engaged in the production of intermediate and bulk medicine products may be forced to terminate production, hence creating a supply crunch which may provide certain support to intermediate and bulk medicine product prices. Also, the price level of intermediate and bulk medicine products are at the lowest by the end of year 2011, thus making most companies in a loss position. Therefore, the Group expects that there will be improvement in the intermediate and bulk medicine product prices going forward.

The Group's finished products enjoy considerable reputation in the China market and major medical institutions and the public have a certain degree of confidence in the products of the Group. Therefore, our products have a stable market share in China and sales are guaranteed to a certain extent. After the implementation of price-cutting measures on finished products by the national regulatory authorities over the past few years, the Group expects that the extent of price cuts in 2012 will be milder than in the past and, given that most of the Group's best-selling products are individual pricing, the turnover of pharmaceutical products will be relatively stable.

Bringing low-cost advantages into play

The vertically-integrated production model of the Group and the operation of the production base in Inner Mongolia have become mature and complete by further enhancing our production capacity in intermediate products, leading to further decline in the Group's production cost. Despite the continuously hovering raw material prices, leading production technology is being adopted by the Group to increase efficiency and production capacity, which brought about the decrease in production cost, offsetting part of the adverse impact as a result of the rising raw material prices, hence more advantageous relative to peers. The Group is committed to reduce its production cost in order to cope with the fluctuation in prices of intermediate and bulk medicine products, which helps the Group to continue capturing market share from competitors. While the Group will confront a difficult business environment due to lower product prices in the short run, the low-cost strategy helps the Group to further exploit the price advantages of its products in the market and, in the long run, other competitors will leave the market given that no more profits can be reaped, hence making way for the Group's further domination of the market.

Developing the international market of intermediate and bulk medicine products

The Group has established regional offices in countries and areas, like Brazil, India and Dubai, as its stepping stones to enter the global market. The Group will strengthen the sales function of its overseas offices, making room for further growth in the Group's results and diversifying regional sales risks, bringing growth drivers to the Group.

Developing new products and expanding the sales of recombinant human insulin products

The Group will continue to bring its cutting edge in R&D into play to develop products of high margin and demand. There are currently 37 types of new products being developed, of which 11 are applying for patent registration and 8 of them was approved for the patent registration. With the recombinant human insulin products remaining a key product of the Group, the Group will seize the momentum of the fast-growing demand for human insulin by investing substantial resources in order to capture greater market share. The Group's new insulin products have attained relatively high international recognition in terms of quality and production technology and the Group will develop overseas market to expand revenue sources.

Diversifying financing channels

The Group expects that the Chinese financial institutions will continue to implement macroeconomic regulation and control and the funding needs for capital expenditure in Inner Mongolia's plant for enhancing its production capacity, thus the cost of bank borrowings will stay at high levels. The Group will, depending on the market conditions, consider raising funds by different financing channels to optimize the Group's capital base so as to control overall finance costs.

EMPLOYEES AND REMUNERATION

As at 31 December 2011, the Group had approximately 10,500 (2010: 10,500) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Choy Kam Lok (蔡金樂), aged 70, is an executive director and the Chairman of the Company. Mr. Choy has over 30 years of experience in the pharmaceutical manufacturing business in Hong Kong and the PRC. He was engaged in the trading of pharmaceutical products prior to the Choy Family's acquisition of United Laboratories Hong Kong in the 1990's. He was named an honorary citizen of Zhuhai City in 1998 and appointed a council member of the China Overseas Friendship Association in 2001. Mr. Choy is responsible for the overall business planning and strategic development of the Group.

Ms. Peng Wei (彭韡), aged 49, is an executive director, the Vice-Chairman and the General Manager of the Company. Ms. Peng was appointed as the Vice-Chairman of the Company on 1 December 2010. Ms. Peng graduated from the department of medicine of Xi'an Medical College, PRC in 1983 and was granted a degree of EMBA from Lingnan College of the Zhongshan University in 2006. She is currently a member of the Zhuhai Municipal People's Congress. Prior to joining the Group, Ms. Peng had worked in other pharmaceutical manufacturing enterprises in the PRC. She joined the Group in 1995. Ms. Peng has over 20 years' experience in corporate and financial management for pharmaceutical enterprises in the PRC. Ms. Peng received the "Guangdong Province Labour Model" award in 2000 and the "Distinguished Individual in Advanced Quality Food and Medical Industry Technology in Guangdong" award in 2005. Ms. Peng is responsible for the overall management as well as overseeing the research and development functions of the Group.

Mr. Leung Wing Hon (梁永康), aged 50, is an executive director, the Chief Financial Officer and Company Secretary of the Company. Mr. Leung is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Association of International Accountants and an associate of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 15 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Mr. Tsoi Hoi Shan (蔡海山), aged 34, is an executive director and is responsible for planning and managing the overall production at the Hong Kong Yuen Long Plant. Mr. Tsoi is the son of Mr. Choy Kam Lok, who is an executive director and the Chairman of the Company, and the brother of Ms. Choy Siu Chit, who is a non-executive director of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is one of the discretionary objects of a discretionary trust established by the settlement deed dated 7 February 2007 made between Mr. Choy Kam Lok (as settler) and DBS Trustee H.K. (Jersey) Limited (as trustee).

Ms. Zou Xian Hong (鄒鮮紅), aged 47, is the vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

Ms. Zhu Su Yan (朱蘇燕), aged 47, is the vice president of the Group. Ms. Zhu graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Mr. Fang Yu Ping (方煜平), aged 49, is the vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. In 1995, Mr. Fang joined the Group and had held a number of positions including the head of China sales office, district manager, regional manager, duty general manager and etc.. He was promoted to vice president of the Group in 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Non-executive director

Ms. Choy Siu Chit (蔡紹哲), aged 39, is a non-executive director. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the daughter of Mr. Choy Kam Lok, an executive director and the Chairman of the Company, and the sister of Mr. Tsoi Hoi Shan, an executive director of the Company.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 63, was appointed as an independent non-executive director on 31 March 2009. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

Mr. Huang Bao Guang (黃寶光), aged 64, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA.

Mr. Song Ming (宋敏), aged 50, was appointed as an independent non-executive Director on 25 May 2007, and is a member of the audit committee of the Company. Mr. Song completed his 4 year study in applied mathematics from Zhejiang University, PRC in 1982; his master of applied mathematics degree from Huazhong Technical College, PRC in 1985; and his PhD from Ohio State University, United States in 1991. Mr. Song taught in the Department of Economics at Cleveland State University, United States from 1991 to 1997 and during that period, he was promoted to the position of associate professor. Since then, he has served as an Associate Professor of the School of Economics and Finance of the University of Hong Kong. He is a Director of the Centre for China Financial Research at the University of Hong Kong which was founded in 2001.

SENIOR MANAGEMENT

Mr. Tang Bin Xi (唐彬喜), aged 44, is the factory manager of the Group's production plant in Zhuhai. Mr. Tang graduated from the chemical engineering department of Tianjin University in 1990. He was employed by Shenzhen Haibin Pharmaceutical from 1990 to 1995. He joined the Group in 1995. Mr. Tang had worked as technician, workshop supervisor, manager of production department and assistant factory manager before being promoted to head of the Group's production plant in Zhuhai in September 2003. He is primarily responsible for the overall management and operation of the Group's production plant in Zhuhai.

Mr. Wu Shou Ting (吳守廷), aged 45, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advance Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊), aged 61, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Li Guang Wei (李光偉), aged 43, is general manager of United Laboratories (Inner Mongolia) Limited of the Group. Mr. Li graduated from Huabei Pharmaceutical Factory's Employees University in 1991. Mr. Li joined the Group in 2005 and had served as assistant manager of engineer department in United Laboratories (Chengdu) Limited. Prior to joining the Group, Mr. Li had served in a number of pharmaceutical enterprises and was responsible for building of production lines and improvement of production process with over 15 years experience in this field. Mr. Li had been responsible for improvement of production process in the Group's Chengdu factory and building of the Group's Inner Mongolia's factory. Mr. Li is currently responsible for the management of the Group's Inner Mongolia's factory.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Yang Qiu Hong (楊秋紅), aged 42, the general manager of bulk medicine sales department in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang graduated from Qingdao University of Science and Technology (formerly named as "Qingdao College of Chemical") in 1991. Mr. Yang joined the Group in 1999 and responsible for production, sales and research in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang is currently responsible for the Group's sales of intermediate and bulk medicine products.

Mr. Zhang Wen Yu (張文玉), aged 43, is the general manager of United Laboratories (Chengdu) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Chengdu factory.

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in Note 37 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2011 is set out in Note 7 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 36 of this annual report.

During the year, the Company paid an interim dividend of HK3 cents per share.

The Board do not recommend the payment of final dividend for the year ended 31 December 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 29 May 2012 to 31 May 2012 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the voting right in the annual general meeting to be held on 31 May 2012, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 28 May 2012.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 104 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year are set out in Note 29 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the balance sheet date, the Directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$2,618.7 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 39 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in Note 30 to the consolidated financial statements.

No options has been submitted and/or granted under the Scheme since its adoption.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2011, the aggregate sales attributable to the Group's five largest customers and five largest suppliers accounted for less than 30% of the Group's total sales and purchases respectively for the year.

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

DIRECTORS

The directors of the Company during the year ended 31 December 2011 and up to the date of this report were as follows:

Executive Directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(Vice-Chairman and General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping

Non-Executive Director

Ms. Choy Siu Chit

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Mr. Song Ming

In accordance with article 87 of the Company's articles of association, Mr. Leung Wing Hon, Mr. Tsoi Hoi Shan, Mr. Chong Peng Oon and Mr. Huang Bao Guang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 18 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Choy Kam Lok, Ms. Peng Wei and Mr. Leung Wing Hon has entered into a service contract dated 25 May 2007 with the Company under which each of them agreed to act as an executive director of the Company for a period of three years unless terminated in accordance with the terms of the service contracts. Under these service contracts, the annual salary payable by the Company to Mr. Choy Kam Lok is HK$4,800,000 and the annual salary payable to each of Ms. Peng Wei and Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. Ms. Peng Wei is also entitled to a monthly performance bonus not exceeding RMB50,000 as determined by the executive Directors of the Company with reference to performance of the Group. Each of the executive directors will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

Mr. Tsoi Hoi Shan has entered into a service contract dated 1 April 2010 with the Company under which he was appointed from 3 April 2010 for a maximum period of three years. Mr. Tsoi's subsequent appointment shall also be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$1,800,000 per annum.

Each of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping has entered into a service contract dated 1 November 2010 with the Company under which each of them was appointed from 1 November 2010 for a maximum period of three years. Mr. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive Directors of the Company with reference to performance of the Group.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Ms. Choy Siu Chit has entered into a letter of appointment dated 25 May 2007 with the Company under which she has agreed to act as a non-executive director for a period of one year and will continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the letter of appointment. Ms. Choy Siu Chit is entitled to an annual director's fee of HK$960,000. Ms. Choy Siu Chit is also entitled to an annual emolument of HK$840,000 for her service as directors of certain subsidiaries of the Group.

Each of Mr. Huang Bao Guang and Mr. Song Ming has entered into a letter of appointment dated 25 May 2007 with the Company, and Mr. Chong Peng Oon has entered into a letter of appointment dated 23 March 2010 with the Company under which they agreed to act as independent non-executive directors for a period of one year and will continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. The annual director's fee for each of the above three independent non-executive directors is HK$240,000.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2011, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long/short positions in the ordinary shares of the Company:

Name of directors	Company/Name of associated corporation	Number of shares	*Notes*	Capacity	Percentage of interest
Mr. Choy Kam Lok	Company	954,502,000 (L)	*(1)*	Founder of a trust	73.33%
Mr. Choy Kam Lok	Company	95,000,000 (S)	*(2)*	Interest held jointly with another person	7.29%
Mr. Choy Kam Lok	Gesell Holdings Limited	805,000,000 (L)	*(3)*	Founder of a trust	61.85%
Mr. Choy Kam Lok	Heren Far East Limited	805,000,000 (L)	*(4)*	Founder of a trust	61.85%
Ms. Peng Wei	Company	1,548,000 (L)		Personal interest	0.12%
Mr. Leung Wing Hon	Company	450,000 (L)		Personal interest	0.03%
Mr. Tsoi Hoi Shan	Company	100,000 (L)		Personal interest	0.01%
Ms. Zou Xian Hong	Company	810,000 (L)		Personal interest	0.06%
Ms. Zhu Su Yan	Company	440,000 (L)		Personal interest	0.03%
Mr. Fang Yu Ping	Company	228,000 (L)		Personal interest	0.02%
Ms. Choy Siu Chit	Company	600,000 (L)		Personal interest	0.05%

L/S: Long position/short position

Note:

(1) Mr. Choy Kam Lok ("Mr. Choy") is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell Holdings Limited ("Gesell") and Heren Far East Limited ("Heren") which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 805,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 54,322,000 shares of the Company and 180,000 shares of the Company held by the spouse of Mr. Choy, Ms. Ning Kwai Chan ("Ms. Ning") which is deemed interests of Mr. Choy. Heren lent 95,000,000 shares to Mr. Choy and Ms. Ning. Hence, Mr. Choy had a long position in the 954,502,000 shares.

(2) Mr. Choy and Ms. Ning on-lent the 95,000,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(3) Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Gesell which forms part of the property of The Choy Family Trust for the purpose of the SFO.

(4) Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Heren which forms part of the property of The Choy Family Trust for the purpose of the SFO.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long/short positions in the ordinary shares of the Company:

Name	*Notes*	**Capacity**	**Number of shares held**	**Percentage of Interest**
Heren		Beneficial owner	805,000,000 (L)	61.85%
Gesell	*(1)*	Interest in a controlled corporation	805,000,000 (L)	61.85%
DBS Trustee H.K. (Jersey) Limited	*(2)*	Trustee	805,000,000 (L)	61.85%
HSBC Holdings plc		Beneficial owner	130,384,321 (L)	10.01%
			136,921,675 (S)	10.52%
Tradewinds Global Investors, LLC		Beneficial owner	79,774,000 (L)	6.13%
UBS AG		Beneficial owner	73,742,300 (L)	5.67%
			35,840,000 (S)	2.75%

L/S: Long position/short position

Note:

(1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 805,000,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(2) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 805,000,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2011.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 30 to 33 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

Peng Wei
Executive Director

Hong Kong, 27 March 2012

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2011, the Company has adopted the principles prescribed in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with all applicable code provisions.

THE BOARD

The Board comprises seven executive directors, one non-executive director and three independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 18 to 22. The Board has established two Board committees namely Audit Committee and Remuneration Committee. The attendance rates of individual directors at board meetings and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Choy Kam Lok	4/4	N/A	N/A
Ms. Peng Wei	4/4	N/A	N/A
Mr. Leung Wing Hon	4/4	N/A	N/A
Mr. Tsoi Hoi Shan	4/4	N/A	N/A
Ms. Zou Xian Hong	4/4	N/A	N/A
Ms. Zhu Su Yan	4/4	N/A	N/A
Mr. Fang Yu Ping	4/4	N/A	N/A
Non-executive Director			
Ms. Choy Siu Chit	4/4	N/A	N/A
Independent Non-executive Directors			
Mr. Chong Peng Oon	4/4	2/2	1/1
Mr. Huang Bao Guang	4/4	2/2	1/1
Mr. Song Ming	4/4	2/2	1/1

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and to access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CHAIRMAN AND GENERAL MANAGER

The information of Mr. Choy Kam Lok, the Chairman, and Ms. Peng Wei, the General Manager, are set out in the Biographical Details of Directors and Senior Management. During this financial year, the roles of the Chairman and the General Manager were separated to enhance the accountability of each individual.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has four non-executive directors, including three independent non-executive directors. Among the three independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a director, and approving and terminating the appointment of a director.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background.

The Board has resolved on 27 March 2012 to establish the Nomination Committee. The members of the Nomination Committee comprise of three independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Song Ming is the chairman of the Nomination Committee.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The members of the Remuneration Committee comprise of three independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Chong Peng Oon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the Corporate Governance Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/her own emoluments.

AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Chong Peng Oon is the chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held two meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the Corporate Governance Code. The terms of reference of the Audit Committee are posted on the Company's website.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

To comply with code provision A.5.4 of the Corporate Governance Code, the Company has already established and adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2011, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the Corporate Governance Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2011 amounted to approximately HK$3,680,000 and HK$2,980,000 respectively.

On behalf of the Board

Choy Kam Lok
Chairman

Hong Kong, 27 March 2012

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 103, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	**6,405,039**	6,502,817
Cost of sales		**(4,576,261)**	(3,934,763)
Gross profit		**1,828,778**	2,568,054
Other income	8	**89,531**	40,216
Other gains and losses	9	**11,018**	16,449
Selling and distribution costs		**(1,026,182)**	(939,082)
Administrative expenses		**(460,226)**	(359,927)
Other expenses		**(110,257)**	(70,612)
Gain on fair value change of derivative components of convertible bonds		**5,276**	–
Finance costs	10	**(154,749)**	(91,818)
Profit before taxation		**183,189**	1,163,280
Taxation	12	**(78,916)**	(189,123)
Profit for the year attributable to owners of the Company	13	**104,273**	974,157
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**235,721**	139,083
Total comprehensive income for the year attributable to owners of the Company		**339,994**	1,113,240
Earnings per share (HK cents)	15		
– Basic		**8.0**	78.2
– Diluted		**8.0**	78.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**5,638,860**	4,651,121
Prepaid lease payments	17	**110,493**	108,523
Goodwill	18	**3,740**	3,588
Intangible assets	19	**2,303**	3,270
Deposit for leasehold land		**51,474**	3,551
Deposits for acquisition of property, plant and machinery		**449,153**	136,185
Available-for-sale investment	20	**–**	–
Deferred tax asset	27	**24,323**	35,659
		6,280,346	4,941,897
Current assets			
Inventories	21	**1,537,955**	1,248,199
Trade and bills receivables, other receivables, deposits and prepayments	22	**2,505,853**	2,567,263
Derivative financial instruments	23	**–**	2,268
Prepaid lease payments	17	**2,701**	2,588
Pledged bank deposits	24	**589,446**	381,624
Bank balances and cash	24	**948,604**	464,055
		5,584,559	4,665,997
Current liabilities			
Trade and bills payables and accrued charges	25	**2,286,763**	1,968,439
Derivative financial instruments	23	**1,517**	–
Tax payables		**33,837**	83,704
Borrowings – due within one year	26	**3,086,309**	2,350,074
		5,408,426	4,402,217
Net current assets		**176,133**	263,780
Total assets less current liabilities		**6,456,479**	5,205,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liability			
Deferred tax liabilities	*27*	**75,841**	95,735
Convertible bonds	*28*	**693,097**	–
Embedded derivative components of convertible bonds	*28*	**260,920**	–
Borrowings – due after one year	*26*	**250,000**	–
		1,279,858	95,735
		5,176,621	5,109,942
Capital and reserves			
Share capital	*29*	**13,015**	13,015
Reserves		**5,163,606**	5,096,927
Equity attributable to owners of the Company		**5,176,621**	5,109,942

The consolidated financial statements on pages 36 to 103 were approved and authorised for issue by the Board of Directors on 27 March 2012 and are signed on its behalf by:

CHOY KAM LOK
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Special reserve**	**Capital reserve**	**Foreign exchange reserve**	**Retained profits**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	12,000	768,901	286,032	267,092	344,029	1,514,973	3,193,027
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	–	–	–	–	139,083	–	139,083
Profit for the year	–	–	–	–	–	974,157	974,157
Total comprehensive income for the year	–	–	–	–	139,083	974,157	1,113,240
Shares issued	1,015	1,207,815	–	–	–	–	1,208,830
Transaction costs attributable to issue of shares	–	(17,655)	–	–	–	–	(17,655)
Appropriations	–	–	–	97,167	–	(97,167)	–
Dividends	–	–	–	–	–	(387,500)	(387,500)
At 31 December 2010	13,015	1,959,061	286,032	364,259	483,112	2,004,463	5,109,942
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**235,721**	**–**	**235,721**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**104,273**	**104,273**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**235,721**	**104,273**	**339,994**
Appropriations	**–**	**–**	**–**	**100,191**	**–**	**(100,191)**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**(273,315)**	**(273,315)**
At 31 December 2011	**13,015**	**1,959,061**	**286,032**	**464,450**	**718,833**	**1,735,230**	**5,176,621**

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of HK$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of HK$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for purchase of additional interests in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**183,189**	1,163,280
Adjustments for:		
Provision of (reversal of) allowance for inventories	**65,322**	(295)
(Reversal of) provision of allowance for doubtful debts	**(8,231)**	1,583
Amortisation of intangible assets	**1,082**	2,347
Amortisation of prepaid lease payments	**2,697**	2,669
Depreciation of property, plant and equipment	**453,460**	414,110
Finance costs	**154,749**	91,818
Bank interest income	**(11,637)**	(5,763)
Net loss (gain) on disposal of property, plant and equipment	**1,769**	(2)
Fair value change on derivative financial instruments	**3,785**	(2,268)
Gain on fair value change of derivative components of convertible bonds	**(5,276)**	–
Operating cash flows before movements in working capital	**840,909**	1,667,479
Increase in inventories	**(297,187)**	(322,405)
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	**174,709**	(646,342)
(Decrease) increase in trade and bills payables and accrued charges	**(71,361)**	135,762
Cash generated from operations	**647,070**	834,494
Income taxes paid	**(138,571)**	(166,286)
Net cash from operating activities	**508,499**	668,208
Investing activities		
Payments for purchase of property, plant and equipment	**(1,195,236)**	(1,088,203)
Proceeds on disposal of property, plant and equipment	**5,327**	8,319
Increase in prepaid lease payments	**(125)**	(104)
Placement of pledged bank deposits	**(1,624,446)**	(237,504)
Withdrawal of pledged bank deposits	**1,436,769**	156,384
Interest received	**11,637**	5,763
Payment for deposit of leasehold land	**(46,727)**	–
Net cash used in investing activities	**(1,412,801)**	(1,155,345)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Financing activities		
Dividends paid	**(273,315)**	(387,500)
Interest paid	**(175,063)**	(114,818)
New borrowings other than trust receipt loans raised	**3,848,759**	2,193,033
Repayment of borrowings other than trust receipt loans	**(2,945,958)**	(2,138,042)
(Decrease) increase in trust receipt loans, net	**(9,280)**	8,172
Issue of convertible bonds	**970,440**	–
Expenses relating to issue of convertible bonds	**(39,777)**	–
Issue of ordinary shares	**–**	1,208,830
Expenses relating to issue of ordinary shares	**–**	(17,655)
Net cash from financing activities	**1,375,806**	752,020
Net increase in cash and cash equivalents	**471,504**	264,883
Effect of foreign exchange rate changes	**13,045**	6,683
Cash and cash equivalents at beginning of the year	**464,055**	192,489
Cash and cash equivalents at end of the year	**948,604**	464,055
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**948,604**	464,055

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company is Heren Far East Limited, a company incorporated in the British Virgin Islands and its ultimate holding company is Gesell Holdings Limited, a company incorporated in the British Virgin Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 37.

The functional currency of the Company and its subsidiaries (the "Group") in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the Company is a public company with the shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and a majority of its investors are based in Hong Kong and therefore, the directors consider that Hong Kong dollars is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new or revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

Except as described below, the directors of the Company anticipate that the application of the new and revised standards, amendments and interpretation will not have material impact on the results and financial position of the Group.

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 9 "Financial Instruments"

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

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The directors anticipate that the adoption of HKFRS 9 in the future will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 13 "Fair Value Measurement"

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

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

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will not affect the amounts reported in the consolidated financial statements and will result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

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

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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

Goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the lease term or the operation period of the relevant company of 50 years
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

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

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease/land use right or the operation period of the relevant company.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditures

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

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

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading and classified as a financial asset at FVTPL if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. 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 are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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

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

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

Financial liabilities and equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Convertible bonds contains liability component, conversion option derivative and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximate the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Retirement benefit costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such difference will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. As at 31 December 2011, the carrying amount of property, plant and equipment is HK$5,638,860,000 (2010: HK$4,651,121,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of property, plant and equipment

The Group assesses regularly whether property, plant and equipment have any indication of impairment in accordance with its accounting policy. The Group determines the carrying amounts of the property, plant and equipment based on the estimation of the economic benefits generated from the property, plant and equipment. Management is confident that the carrying amount of the property, plant and equipment will be recovered in full based on the results of assessment of the estimates of anticipated cash flow generated by the property, plant and equipment. The situation will be closely monitored, and adjustments for impairment will be made in future periods in which there is an indication of such adjustments are appropriate.

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2011, the carrying amount of trade and bills receivables, and other receivables is disclosed in note 22.

Estimated allowance for write-down of inventories to net realisable value

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. As at 31 December 2011, the carrying amount of inventories is HK$1,537,955,000 (2010: HK$1,248,199,000).

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the embedded derivatives in convertible bonds. As at 31 December 2011, the carrying amount of embedded derivatives is HK$260,920,000 (2010: Nil). Details of the terms of the convertible bonds are disclosed in note 28.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of net debt, which includes the borrowings (note 26), convertible bonds (note 28), net of bank balances, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

The management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and at the end of the reporting period.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 **HK$'000**	2010 HK$'000
Financial assets		
Loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits and bank balances and cash)	**3,584,621**	3,108,204
Derivative financial instruments	**–**	2,268
Financial liabilities		
Amortised cost	**6,316,169**	4,159,806
Embedded derivative components of convertible bonds	**260,920**	–
Derivative financial instruments	**1,517**	–

6. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, convertible bonds and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks and they are summarised below.

Market risk

Foreign currency risk

The Group has trade receivables, pledged bank deposits and bank balances denominated in United States dollars ("USD") and other payables and accruals, and trust receipt loans denominated in Euro, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's monetary assets (liabilities) denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period are as follows:

	2011	2010
	HK$'000	HK$'000
USD	**349,769**	356,357
Euro	**(1,759)**	(10,492)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD and Euro. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A (negative) positive number below indicates a (decrease) increase in profit for the year where Renminbi strengthens 5% against USD and Euro. For a 5% weakening of Renminbi against USD and Euro, there would be an equal but opposite impact on the profit for the year.

6. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Foreign currency risk *(Continued)*

Foreign currency sensitivity analysis (Continued)

	2011 **HK$'000**	2010 HK$'000
USD		
Profit for the year	**(15,199)**	(15,487)
Euro		
Profit for the year	**73**	525

Fair value and cash flow interest rate risk

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings and bank deposits expose the Group to cash flow interest-rate risk. Borrowings and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk. The directors of the Company consider the Group's exposure to fair value interest rate risk on bank deposits is not significant as most deposits bear variable interest rates.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the borrowings and bank deposits at the end of the reporting period. The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates had been increased/decreased by 50 (2010: 50) basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$599,000 (2010: HK$72,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Other price risk

The Group had entered into several foreign currency forward contracts with a banks to reduce its exposure to currency fluctuation risk of payments from trade receivables which were denominated in USD. The derivatives were not accounted for under hedge accounting. The Group was required to estimate the fair value of the foreign currency forward contracts at the end of the reporting period, which therefore exposed the Group to other price risk.

Also, the conversion option and early redemption option derivatives of the Company's convertible bonds state at fair value exposed the Group to equity price risk.

Forward exchange rate sensitivity analysis

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward exchange rate of RMB strengthen 5% against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase by HK$16,951,000 (2010: HK$11,915,000). If the forward exchange rate had been lower by 5%, the Group's profit for the year would have decreased by HK$19,985,000 (2010: HK$12,586,000).

Equity price risk sensitivity analysis

If the share price of the Company inputted to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% higher while all other variables were held constant, the profit for the year ended 31 December 2011 would decrease by approximately HK$29,517,000 (2010: Nil). If the share price of the Company inputted to the valuation model for assessing the fair values of such derivatives had been 10% lower while all other variables were held constant, the profit for the year ended 31 December 2011 would increase by approximately HK$25,611,000 (2010: Nil).

If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair values of such derivatives had been 10% higher while all other variables were held constant, the profit for the year ended 31 December 2011 would decrease by approximately HK$20,776,000 (2010: Nil). If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair values of such derivatives had been 10% lower while all other variables were held constant, the profit for the year ended 31 December 2011 would increase by approximately HK$20,409,000 (2010: Nil).

6. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out research on the credit risk of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed when necessary.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the directors of the Company consider that counterparties are financially sound.

Other than concentration of credit risk on bank deposits in which the counterparties are financially sound, the Group has no significant concentration of credit risk on trade and bills receivables, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables at the end of the reporting period.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilised banking facilities of HK$1,580,208,000 (2010: HK$1,870,073,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates current at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. Included in borrowings, discounted bills amounting to HK$1,004,764,000 (2010: HK$878,420,000), which will not result in any cash outflow in the future, has not been included in the table below. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2011									
Non-interest bearing									
Trade, bills and other payables	–	–	1,138,558	929,726	218,479	–	–	2,286,763	2,286,763
Interest bearing instruments									
Borrowings									
– fixed rate	4.81%	503,472	287,910	37,641	–	–	–	829,023	826,434
– variable rate	7.18%	1,195,062	4,127	–	64,914	8,281	263,937	1,536,321	1,505,111
Convertible bonds									
– fixed rate	7.50%	–	–	–	36,557	36,557	1,268,924	1,342,038	693,097
		1,698,534	1,430,595	967,367	319,950	44,838	1,532,861	5,994,145	5,311,405

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2010								
Non-interest bearing								
Trade, bills and other payables	–	–	842,852	693,343	269,328	4,209	1,809,732	1,809,732
Interest bearing instruments								
Borrowings								
– fixed rate	5.21%	512,585	–	–	–	–	512,585	512,585
– variable rate	6.71%	959,069	–	–	–	–	959,069	959,069
		1,471,654	842,852	693,343	269,328	4,209	3,281,386	3,281,386

6. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity analysis of term loans with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates and variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments							
	On demand	0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2011	**–**	**286,516**	**66,043**	**101,067**	**453,615**	**763,974**	**115,413**	**1,786,628**
As at 31 December 2010	–	288,326	90,245	185,026	387,110	212,592	390,269	1,553,568

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

Fair value

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

The fair value of derivative instruments are measured using quoted forward rates and discounted using applicable yield for the duration of the instruments.

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset is determined based on the lowest level of significant input to the fair value measurement.

The following table presents the Group's (liabilities) assets that are measured at fair value at the end of the reporting period:

	31/12/2011		
	Level 2	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Derivative financial instruments	**(1,517)**	**–**	**(1,517)**
Embedded derivatives of convertible bonds	**–**	**(260,920)**	**(260,920)**
Total	**(1,517)**	**(260,920)**	**(262,437)**

	31/12/2010
	Level 2
	HK$'000
Derivatives financial instruments	2,268

There have been no transfers between level 1 and 2 during the year.

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements of financial liabilities

	HK$'000
At 1 January 2011	–
Issue of convertible bonds	265,106
Exchange realignment	1,090
Gain recognised in profit or loss	(5,276)
At 31 December 2011	260,920

7. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	2011 HK$'000	2010 HK$'000
Sales of pharmaceutical products	6,405,039	6,502,817

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment turnover and results:

Year ended 31 December 2011

Income statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,654,576	2,836,473	1,913,990	6,405,039	–	6,405,039
Inter-segment sales	1,313,172	229,867	–	1,543,039	(1,543,039)	–
	2,967,748	3,066,340	1,913,990	7,948,078	(1,543,039)	6,405,039
RESULT						
Segment profit	36,754	8,791	289,459			335,004
Unrealised profit elimination	55,251	5,440	7,653			68,344
	92,005	14,231	297,112			403,348
Unallocated other income						14,634
Unallocated corporate expenses						(96,338)
Other gains and losses						11,018
Gain on fair value change of derivative components of convertible bonds						5,276
Finance costs						(154,749)
Profit before taxation						183,189

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results: *(Continued)*

Year ended 31 December 2010

Income statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,710,429	2,875,592	1,916,796	6,502,817	–	6,502,817
Inter-segment sales	1,281,911	241,968	–	1,523,879	(1,523,879)	–
	2,992,340	3,117,560	1,916,796	8,026,696	(1,523,879)	6,502,817
RESULT						
Segment profit	575,280	276,440	436,139			1,287,859
Unrealised profit elimination	(4,790)	(2,807)	10,809			3,212
	570,490	273,633	446,948			1,291,071
Unallocated other income						7,264
Unallocated corporate expenses						(59,686)
Other gains and losses						16,449
Finance costs						(91,818)
Profit before taxation						1,163,280

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

The turnover, profit or loss, assets and liabilities of the Group are allocated based on the operations of the segments.

Intersegment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, sundry income, other gains and losses, corporate expenses and staff costs, and finance costs.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Segment assets and liabilities

	2011 HK$'000	2010 HK$'000
Reportable segment assets		
Intermediate products	**6,293,598**	4,802,246
Bulk medicine	**2,754,091**	2,775,106
Finished products	**1,254,843**	1,146,936
Total segment assets	**10,302,532**	8,724,288
Reportable segment liabilities		
Intermediate products	**1,392,147**	958,160
Bulk medicine	**789,892**	927,533
Finished products	**104,724**	82,746
Total segment liabilities	**2,286,763**	1,968,439

Measurement

Reportable segment assets exclude the deferred tax asset, derivative financial instruments, pledged bank deposits, bank balances and cash.

Reportable segment liabilities exclude derivative financial instruments, tax payables, borrowings, deferred tax liabilities, embedded derivative components of convertible bonds and convertible bonds.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Reconciliation of reportable segment assets and liabilities

Reconciliation segment assets and liabilities are reconciled to the assets and total liabilities of the Group as follows:

	2011 **HK$'000**	2010 HK$'000
Assets		
Reportable segment assets	**10,302,532**	8,724,288
Unallocated assets:		
Deferred tax asset	**24,323**	35,659
Derivative financial instruments	**–**	2,268
Pledged bank deposits	**589,446**	381,624
Bank balances and cash	**948,604**	464,055
Total assets per consolidated statement of financial position	**11,864,905**	9,607,894
Liabilities		
Reportable segment liabilities	**2,286,763**	1,968,439
Unallocated liabilities:		
Derivative financial instruments	**1,517**	–
Tax payables	**33,837**	83,704
Borrowings	**3,336,309**	2,350,074
Deferred tax liabilities	**75,841**	95,735
Convertible bonds	**693,097**	–
Embedded derivative components of convertible bonds	**260,920**	–
Total liabilities per consolidated statement of financial position	**6,688,284**	4,497,952

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(d) Other segment information

For the year ended 31 December 2011

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Consolidated HK$'000**
Amounts included in the measure of segment profit or loss or segment assets:				
Amortisation of prepaid lease payment	**1,739**	**588**	**370**	**2,697**
Amortisation of intangible assets	**–**	**–**	**1,082**	**1,082**
Depreciation of property, plant and equipment	**342,286**	**56,890**	**54,284**	**453,460**
Provision of (reversal of) allowance for inventories	**30,382**	**35,881**	**(941)**	**65,322**
Loss on disposal of property, plant and equipment	**755**	**453**	**561**	**1,769**
Additions to prepaid lease payments during the year	**125**	**–**	**–**	**125**
Additions to property, plant and equipment during the year	**868,363**	**308,361**	**63,745**	**1,240,469**

For the year ended 31 December 2010

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Amortisation of prepaid lease payment	1,753	562	354	2,669
Amortisation of intangible assets	–	–	2,347	2,347
Depreciation of property, plant and equipment	327,264	47,152	39,694	414,110
Reversal of allowance for inventories	–	–	(295)	(295)
Gain on disposal of property, plant and equipment	–	2	–	2
Additions to prepaid lease payments during the year	104	–	–	104
Additions to property, plant and equipment during the year	535,808	258,192	95,706	889,706

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(e) Geographical information

The turnover by geographical market (irrespective of the origin of the goods) based on the location of the customers and the non-current assets by location of assets are presented below:

	Turnover from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
				(Restated)
PRC (country of domicile)	**4,397,079**	4,544,686	**6,133,498**	4,776,369
Europe	**407,515**	437,571	**–**	–
India	**971,106**	936,256	**–**	–
Hong Kong	**66,195**	30,873	**122,525**	129,869
Middle east	**75,411**	91,922	**–**	–
South America	**114,202**	90,385	**–**	–
Other Asian regions	**330,169**	273,921	**–**	–
Other regions	**43,362**	97,203	**–**	–
	6,405,039	6,502,817	**6,256,023**	4,906,238

Notes:

1) Analysis on turnover from external customers attributed to individual countries in Europe, other Asian regions and other regions is not presented as the cost to develop such necessary information would be excessive.

2) Non-current assets excludes deferred tax assets.

(f) Information about major customers

There is no customer who represents more than 10% of the total sales of the Group.

8. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Bank interest income	**11,637**	5,763
Sales of raw materials	**34,496**	15,232
Subsidy income (note 35)	**40,401**	17,720
Sundry income	**2,997**	1,501
	89,531	40,216

9. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Net foreign exchange gain	**16,572**	14,179
Net (loss) gain on disposal of property, plant and equipment	**(1,769)**	2
Fair value change on derivative financial instruments	**(3,785)**	2,268
	11,018	16,449

10. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on borrowings wholly repayable within five years	**185,930**	114,818
Interest on convertible bonds wholly repayable within five years	**13,799**	–
	199,729	114,818
Less: amounts capitalised in property, plant and equipment	**(44,980)**	(23,000)
	154,749	91,818

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.01% (2010: 5.31%) per annum to expenditure on qualifying assets.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of the emoluments paid by the Group to the directors for the year are as follows:

Year ended 31 December 2011

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	960	240	240	240	1,680
Other emoluments:												
Salaries and other benefits	4,800	3,600	3,600	1,800	1,800	1,800	1,800	840	–	–	–	20,040
Bonus*	–	135	–	–	230	230	230	–	–	–	–	825
Retirement benefit scheme contributions	–	19	12	12	5	16	12	24	–	–	–	100
	4,800	3,754	3,612	1,812	2,035	2,046	2,042	864	–	–	–	20,965
Total emoluments	4,800	3,754	3,612	1,812	2,035	2,046	2,042	1,824	240	240	240	22,645

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

(a) Directors *(Continued)*

Year ended 31 December 2010

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	960	240	240	240	1,680
Other emoluments:												
Salaries and other benefits	4,800	3,600	3,680	1,800	300	300	300	840	–	–	–	15,620
Bonus*	–	709	–	–	216	216	216	–	–	–	–	1,357
Retirement benefit scheme contributions	–	31	12	12	16	5	40	24	–	–	–	140
	4,800	4,340	3,692	1,812	532	521	556	864	–	–	–	17,117
Total emoluments	4,800	4,340	3,692	1,812	532	521	556	1,824	240	240	240	18,797

* Executive directors will be entitled to a discretionary bonus as decided by the Board and the remuneration committee with reference to performance of the Group.

(b) Employees

For the year ended 31 December 2011 and 2010, all the five highest paid individuals of the Group are directors of the Company, details of which are set out above.

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2011 and 2010.

12. TAXATION

	2011 HK$'000	2010 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,854**	10,953
PRC enterprise income tax	**52,547**	159,057
PRC withholding tax	**26,127**	11,960
Overprovision in prior years		
Hong Kong	**(220)**	(606)
PRC	**–**	(2,734)
	86,308	178,630
Deferred tax (note 27)	**(7,392)**	10,493
	78,916	189,123

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC Enterprise Income Taxes are calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投資企業和外國企業所得稅法》) and Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《外商投資企業和外國企業所得稅法實施細則》), both of which came into force on 1 July 1999, certain subsidiaries in the PRC are entitled to exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter will be entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Such tax benefit for respective subsidiaries will expire from 1 January 2010 to 31 December 2012.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, for those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate is increased progressively from 18% to 25% by 2012 as a result of the grandfathering provisions. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a rate of 15% and such qualification have to renew for every three years.

12. TAXATION *(Continued)*

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax charge of HK$6,233,000 (2010: HK$50,631,000) on the undistributed earnings has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2011.

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

	2011	2010
	HK$'000	HK$'000
Profit before taxation	**183,189**	1,163,280
Tax at PRC Enterprise Income Tax rate of 25% (2010: 25%)	**45,797**	290,820
Tax effect of expenses not deductible for tax purpose	**8,986**	1,813
Tax effect of income not taxable for tax purpose	**(1,543)**	(3,781)
Overprovision in prior years	**(220)**	(3,340)
Tax effect of tax losses not recognised	**25,521**	6,024
Tax effect of deductible temporary difference not recognised	**14,337**	(23,056)
PRC withholding tax	**6,233**	50,631
Effect of tax concessionary rates granted to the PRC subsidiaries	**(16,150)**	(79,216)
Effect of tax exemptions granted to the PRC subsidiaries	**(410)**	(56,944)
Effect of different tax rates of subsidiaries	**(4,331)**	(4,995)
Others	**696**	11,167
Tax charge for the year	**78,916**	189,123

13. PROFIT FOR THE YEAR

	2011 HK$'000	2010 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Provision of (reversal of) allowances for inventories (note)	**65,322**	(295)
(Reversal of) provision of allowance for doubtful debts, net	**(8,231)**	1,583
Auditor's remuneration		
– Current year	**3,680**	3,450
Amortisation of prepaid lease payments	**2,697**	2,669
Depreciation and amortisation		
Depreciation of property, plant and equipment	**453,460**	414,110
Amortisation of intangible assets (included in administrative expenses)	**1,082**	2,347
	454,542	416,457
Less: amount included in loss on temporary production suspension	**(11,696)**	–
Less: amount included in research and development expenditures	**(6,361)**	(471)
	436,485	415,986
Operating lease payments in respect of rented premises	**3,020**	1,860
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**649,057**	552,724
Retirement benefit costs	**55,813**	41,723
	704,870	594,447
Less: amount included in research and development expenditures	**(7,856)**	(4,772)
	697,014	589,675
Loss on temporary production suspension due to break down of machineries (included in other expenses)	**22,588**	1,510
Research and development expenditures (included in other expenses)	**74,217**	52,372

Note: During the year, allowances for certain of the intermediate products and bulk medicines have been made based on assessments of their net realisable values.

14. DIVIDEND

	2011 **HK$'000**	2010 HK$'000
Final dividend paid for 2010 of HK18 cents (2009: HK19 cents) per share	**234,270**	237,500
Interim dividend paid for 2011 of HK3 cents (2010: HK12 cents)	**39,045**	150,000
	273,315	387,500

The board of directors does not recommend payment of final dividend for the year ended 31 December 2011 (2010: HK18 cents).

15. EARNINGS PER SHARE

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

Earnings

	2011 **HK$'000**	2010 HK$'000
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	**104,273**	974,157

Number of shares

	2011 **'000**	2010 '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,301,500**	1,246,144

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2010	1,606,091	3,280,178	81,142	49,686	452,539	5,469,636
Exchange adjustments	69,766	143,644	3,356	2,137	21,237	240,140
Additions	72,755	116,056	5,438	10,607	684,850	889,706
Disposals	(5,306)	(18,628)	(5,470)	(4,225)	–	(33,629)
Reclassification	268,922	334,208	5,305	88	(608,523)	–
At 31 December 2010	2,012,228	3,855,458	89,771	58,293	550,103	6,565,853
Exchange adjustments	85,519	173,058	3,992	2,440	28,226	293,235
Additions	35,469	159,662	8,648	5,830	1,030,860	1,240,469
Disposals	(5,032)	(18,102)	(2,805)	(2,406)	–	(28,345)
Reclassification	259,003	555,251	10,743	352	(825,349)	–
At 31 December 2011	2,387,187	4,725,327	110,349	64,509	783,840	8,071,212
DEPRECIATION						
At 1 January 2010	211,446	1,153,934	62,253	32,235	–	1,459,868
Exchange adjustments	9,287	52,826	2,561	1,392	–	66,066
Charge for the year	68,748	328,164	9,439	7,759	–	414,110
Eliminated on disposals	(2,064)	(15,924)	(4,335)	(2,989)	–	(25,312)
At 31 December 2010	287,417	1,519,000	69,918	38,397	–	1,914,732
Exchange adjustments	12,395	68,373	2,936	1,705	–	85,409
Charge for the year	75,340	361,089	8,404	8,627	–	453,460
Eliminated on disposals	(3,140)	(15,639)	(1,515)	(955)	–	(21,249)
At 31 December 2011	372,012	1,932,823	79,743	47,774	–	2,432,352
CARRYING AMOUNTS						
At 31 December 2011	2,015,175	2,792,504	30,606	16,735	783,840	5,638,860
At 31 December 2010	1,724,811	2,336,458	19,853	19,896	550,103	4,651,121

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

The carrying amount of land and buildings shown above comprises properties situated on:

	2011	2010
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong:		
Medium-term lease	**113,089**	116,112
Buildings located on the leasehold land in the PRC:		
Medium-term lease	**1,902,086**	1,608,699
	2,015,175	1,724,811

At 31 December 2011, the Group is in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$63,478,000 (2010: HK$47,143,000).

17. PREPAID LEASE PAYMENTS

	2011	2010
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC:		
Medium-term lease	**113,194**	111,111
Analysed for reporting purposes as:		
Non-current asset	**110,493**	108,523
Current asset	**2,701**	2,588
	113,194	111,111

18. GOODWILL

	HK$'000
COST	
At 1 January 2010	3,437
Exchange adjustments	151
At 31 December 2010	3,588
Exchange adjustments	152
At 31 December 2011	3,740

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2011 **HK$'000**	2010 HK$'000
Bulk medicine	**955**	915
Finished products	**2,785**	2,673
	3,740	3,588

Based on the impairment testing of goodwill at the end of the reporting period, the management of the Group considered that there are no impairment of any of its CGUs containing goodwill with indefinite useful lives.

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period and discount rate of 11.31% (2010: 12.13%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

19. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2010	22,994
Exchange adjustments	963
At 31 December 2010	23,957
Exchange adjustments	1,016
At 31 December 2011	24,973
AMORTISATION	
At 1 January 2010	17,544
Exchange adjustments	796
Charge for the year	2,347
At 31 December 2010	20,687
Exchange adjustments	901
Charge for the year	1,802
At 31 December 2011	22,670
CARRYING AMOUNTS	
At 31 December 2011	2,303
At 31 December 2010	3,270

Intangible assets represent the carrying amounts of the development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allowing the Group to apply the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of intangible assets are therefore amortised over the useful lives of five years.

Included in intangible assets are licenses with cost of HK$16,239,000 (2010: HK$15,579,000) which are fully amortised at the end of the reporting period and the licenses have expired.

20. AVAILABLE-FOR-SALE INVESTMENT

	2011	2010
	HK$'000	HK$'000
Unlisted investment at cost	**23,417**	23,417
Less: Impairment loss recognised	**(23,417)**	(23,417)
	–	–

The above unlisted investment represents an investment in unlisted equity securities issued by a private entity incorporated in the United States. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The directors conducted a review of the investee company's operating results and financial position in previous years and determined the investment should be fully impaired. Accordingly, impairment loss of HK$23,417,000 was recognised in previous years.

21. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Raw materials	**374,476**	388,696
Work in progress	**230,443**	417,470
Finished goods	**933,036**	442,033
	1,537,955	1,248,199

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011 HK$'000	2010 HK$'000
Trade and bills receivables	**2,051,064**	2,287,506
Other receivables, deposits and prepayments	**472,577**	304,738
Less: allowance for doubtful receivables	**(17,788)**	(24,981)
	2,505,853	2,567,263

The Group normally allows a credit period of between 30 – 120 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a maturity period of between 90 – 180 days.

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, and net of allowance for doubtful receivables at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Trade receivables		
0 to 30 days	**527,689**	638,200
31 to 60 days	**247,935**	345,011
61 to 90 days	**90,433**	69,956
91 to 120 days	**122,432**	9,113
121 to 180 days	**76,311**	7
Over 180 days	**4,432**	1,581
	1,069,232	1,063,868
Bills receivables		
0 to 30 days	**115,130**	119,024
31 to 60 days	**124,258**	208,601
61 to 90 days	**126,332**	179,965
91 to 120 days	**248,146**	250,037
121 to 180 days	**348,513**	440,427
Over 180 days	**14,960**	603
	977,339	1,198,657

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

72% (2010: 98%) of the trade and bills receivables that are neither past due nor impaired have either been subsequently settled or the related debtors maintain an active trade business relationship with the Group.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$258,451,000 (2010: HK$26,760,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and has been subsequently settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired

	2011 **HK$'000**	2010 HK$'000
61-90 days	**40,316**	15,456
91-120 days	**122,432**	9,113
121-180 days	**76,311**	7
Over 180 days	**19,392**	2,184
	258,451	26,760

In determining the recoverability of trade and bills and other receivables, the Group considers any change in the credit quality of the trade and bills receivables, and other receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Movement in the allowance for doubtful debts

	2011 **HK$'000**	2010 HK$'000
Balance at beginning of the year	**24,981**	22,214
Exchange adjustments	**1,038**	1,184
Impairment losses recognised on receivables	**10,544**	4,675
Impairment losses reversed	**(18,775)**	(3,092)
Balance at end of the year	**17,788**	24,981

22. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts *(Continued)*

At 31 December 2011, trade and other receivables balance totalling HK$17,788,000 (2010: HK$24,981,000) were individually determined to be impaired, which related to customers that were in financial difficulties. The management assessed that the full amount of the trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

As at 31 December 2011, the Group had HK$1,004,764,000 (2010: HK$878,420,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$17,447,000 (2010: HK$22,520,000) bills receivables were issued by the Group's debtors, and the remaining were issued by certain subsidiaries of the Group. Accordingly, the Group continues to recognise the full carrying amount of the Group's receivables and has recognised the cash received on such discount as a secured borrowing (see note 26). In addition, as at 31 December 2011, HK$417,782,000 (2010: HK$529,865,000) of bills receivables issued by the Group's debtors had been endorsed to the Group's creditor (see note 25).

Included in the Group's trade and bills receivables are trade receivables with a carrying amount of HK$296,469,000 (2010: HK$338,672,000) which are denominated in United States dollars, being a foreign currency of the respective group entities.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	HK$'000	HK$'000
Foreign currency forward contracts – (liabilities) assets	**(1,517)**	2,268

During the year ended 31 December 2011, the Group had entered into several USD foreign currency forward contracts with a bank to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD58,000,000 (equivalent to HK$452,400,000) (2010: USD33,000,000 (equivalent to HK$257,400,000)). The contracts were subject to net settlement at maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

23. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2011

Notional amount	Maturity date	Exchange rate
Sell USD3,000,000	8 February 2012	RMB6.40/USD1
Sell USD3,000,000	8 March 2012	RMB6.39/USD1
Sell USD3,000,000	9 April 2012	RMB6.38/USD1
Sell USD3,000,000	8 May 2012	RMB6.38/USD1
Sell USD3,000,000	8 June 2012	RMB6.37/USD1
Sell USD3,000,000	9 July 2012	RMB6.36/USD1
Sell USD2,000,000	28 February 2012	RMB6.33/USD1
Sell USD2,000,000	28 March 2012	RMB6.33/USD1
Sell USD2,000,000	30 April 2012	RMB6.32/USD1
Sell USD2,000,000	29 May 2012	RMB6.32/USD1
Sell USD2,000,000	28 June 2012	RMB6.32/USD1
Sell USD5,000,000	30 July 2012	RMB6.31/USD1
Sell USD5,000,000	28 August 2012	RMB6.31/USD1
Sell USD5,000,000	28 September 2012	RMB6.31/USD1
Sell USD5,000,000	29 October 2012	RMB6.30/USD1
Sell USD5,000,000	20 November 2012	RMB6.36/USD1
Sell USD5,000,000	20 December 2012	RMB6.36/USD1

31 December 2010

Notional amount	Maturity date	Exchange rate
Sell USD6,000,000	15 February 2011	RMB6.72/USD1
Sell USD6,000,000	15 March 2011	RMB6.71/USD1
Sell USD6,000,000	15 April 2011	RMB6.70/USD1
Sell USD3,000,000	4 May 2011	RMB6.59/USD1
Sell USD6,000,000	3 June 2011	RMB6.58/USD1
Sell USD6,000,000	4 July 2011	RMB6.57/USD1

24. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged bank deposits

	2011	2010
	HK$'000	HK$'000
Pledged bank deposits denominated in:		
RMB	**583,875**	370,387
Hong Kong dollars	**5,567**	5,567
USD	**4**	5,670
	589,446	381,624

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

The pledged deposits have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see note 33).

The range of effective interest rates of the pledged deposits at 31 December 2011 is 0.5% to 3.3% (2010: 1.53% to 2.33%) per annum.

Bank balances and cash

	2011	2010
	HK$'000	HK$'000
Bank balances and cash denominated in:		
RMB	**682,732**	212,475
Hong Kong dollars	**212,276**	239,565
USD	**53,296**	12,015
Euro	**300**	–
	948,604	464,055

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

24. PLEDGED BANK DEPOSITS AND BANK BALANCES *(Continued)*

Bank balances and cash *(Continued)*

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

The range of effective interest rates of the bank balances at 31 December 2011 is 0.001% to 1.31% (2010: 0.001% to 1%) per annum.

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
Trade payables		
0 to 90 days	**813,629**	750,506
91 to 180 days	**467,615**	242,167
Over 180 days	**22,070**	4,436
	1,303,314	997,109
Bills payables		
0 to 90 days	**108,261**	301,815
91 to 180 days	**157,859**	235,360
	266,120	537,175
Other payables and accruals	**297,389**	316,015
Payables in respect of the acquisition of property, plant and equipment	**419,940**	118,140
	2,286,763	1,968,439

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES *(Continued)*

Included in the trade payables and other payables above are HK$362,724,000 and HK$55,058,000 (2010: HK$498,642,000 and HK$31,223,000) respectively that has been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period (see note 22).

Included in the Group's other payables and accruals are other payables with a carrying amount of HK$1,759,000 (2010: HK$1,212,000) which are denominated in Euro, being a foreign currency of the respective group entities.

26. BORROWINGS

	2011	2010
	HK$'000	HK$'000
Bank loans	**2,331,545**	1,462,374
Discounted bills with recourse (note 22)	**1,004,764**	878,420
Trust receipt loans	**–**	9,280
	3,336,309	2,350,074
Analysed as:		
Secured	**1,889,145**	1,504,605
Unsecured	**1,447,164**	845,469
	3,336,309	2,350,074
Carrying amount repayable within one year	**1,387,775**	878,420
Carrying amount repayable more than one year, but not exceeding two years	**250,000**	–
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**877,909**	891,003
Not repayable within one year from the end of reporting period but shown under current liabilities*	**820,625**	580,651
	3,336,309	2,350,074
Less: Amount due within one year shown under current liabilities	**(3,086,309)**	(2,350,074)
Amount shown under non-current liabilities	**250,000**	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

26. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate

	2011	2010
	HK$'000	HK$'000
People's Bank of China lending rate – floating rate	**551,746**	679,318
People's Bank of China lending rate – fixed rate	**1,831,198**	1,391,005
Hong Kong Interbank Offered Rate plus 1% to 2.5%	**953,365**	279,751
	3,336,309	2,350,074

At 31 December 2010 and 2009, certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group.

The range of effective interest rates of the floating rate borrowings at 31 December 2011 is 1.96% to 8.56% (2010: 1.83% to 8.09%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2011 is 2.40% to 13.48% (2010: 4.86% to 5.56%) per annum. The range of effective interest rates of the trust receipt loans at 31 December 2010 was 2.27% to 2.77% per annum.

At 31 December 2010, included in the Group's borrowings are trust receipt loans with a carrying amount of HK$9,280,000 which are denominated in Euro, being a foreign currency of the respective group entities.

27. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Accelerated (tax) accounting depreciation	**Unrealised profit on inventories**	**Undistributed profits of subsidiaries**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	(11,820)	18,580	(57,064)	(50,304)
Exchange adjustments	721	–	–	721
Credit (charge) to profit or loss for the year	28,995	(817)	(50,631)	(22,453)
Reallocated to current tax	–	–	11,960	11,960
At 31 December 2010	17,896	17,763	(95,735)	(60,076)
Exchange adjustments	1,166	–	–	1,166
Charge to profit or loss for the year	(1,534)	(10,968)	(6,233)	(18,735)
Reallocated to current tax	–	–	26,127	26,127
At 31 December 2011	17,528	6,795	(75,841)	(51,518)

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2011	2010
	HK$'000	HK$'000
Deferred tax assets	**24,323**	35,659
Deferred tax liabilities	**(75,841)**	(95,735)
	(51,518)	(60,076)

27. DEFERRED TAXATION *(Continued)*

No deferred tax asset has been recognised in relation to the deductible temporary differences of the following items as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised:

	2011	2010
	HK$'000	HK$'000
Allowances for doubtful debts	**17,788**	24,981
Allowances for inventories	**94,337**	26,545
	112,125	51,526

The Group has unrecognised tax losses of HK$156,499,000 (2010: HK$52,857,000) at the end of the reporting period. No deferred tax asset has been recognised for such tax losses due to unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$71,201,000 (2010: Nil) that will expire within five years. Other losses may be carried forward indefinitely.

28. CONVERTIBLE BONDS

On 14 November 2011, the Company issued RMB denominated US$ settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "Bonds"). The Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The Bonds are listed in the Singapore Exchange Securities Trading Limited.

The Bonds bears interest from (and including) the issued date at the rate of 7.5% per annum calculated by reference to the principal amount thereof and payable semiannually in arrear on 14 November and 14 May of each year, commencing with the first interest payment date falling on 14 May 2012. The Bonds will mature on 14 November 2016 (the "Maturity Date") and shall be redeemed by the Company at par on the Maturity Date.

Conversion at the option of the bondholder may occur at any time between 25 December 2011 and 7 December 2016. The Company will, at the option of the bondholder, redeem all or some only of the Bonds after 14 November 2013 at an amount equal to a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest.

The Company may at any time after 14 November 2013 redeem all, but not some only, of the Bonds for the time being outstanding at a fixed amount of their RMB principal amount at the settlement date and paid in US$ equivalent translated at the spot rate at the settlement date, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 140% of the conversion price then in effect, translated into RMB at the fixed rate of HK$1.00 = HK$0.8137.

28. CONVERTIBLE BONDS *(Continued)*

The Company may at any time redeem all, but not some only, of the Bonds being outstanding at a redemption price equal to a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest to the date fixed for redemption, if prior to the date of notice at least 90% in principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Bonds contain liability component, conversion option derivative and early redemption option derivatives. The conversion option is classified as derivative because the conversion will be settled other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of the Company's own equity instruments and it gives the Company the choice over how it is settled. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company and the bond holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option components in proportion to their relative fair values. Transaction costs amounting to approximately HK$10,867,000 relating to the conversion option and redemption option derivatives were charged to profit or loss immediately and included in other expenses. Transaction costs amounting to approximately HK$28,910,000 relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

The fair value of the Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 14 November 2011 and 31 December 2011. The movement of liability component and embedded derivatives of the Bonds for the year is set out as below:

	Liability component HK$'000	**Embedded derivatives** HK$'000
At 1 January	–	–
Issue of convertible bonds	705,334	265,106
Expenses on issue of convertible bonds	(28,910)	–
Interest charged	13,799	–
Exchange realignment	2,874	1,090
Gain arising on changes of fair value	–	(5,276)
At 31 December	693,097	260,920

28. CONVERTIBLE BONDS *(Continued)*

At 14 November 2011 and 31 December 2011, the fair values of the embedded derivatives are calculated using the Binomial Model. Details of the inputs and assumptions of the model are as follows:

	31 December 2011	**14 November 2011**
Share price of the Company	**HK$4.47**	**HK$4.95**
Exercise price	**HK$7.20**	**HK$7.20**
Remaining life		
Risk-free rate	**3.371%**	**3.199%**
Expected volatility	**48.30%**	**46.72%**
Expected dividend yield	**4.83%**	**4.33%**

Expected volatility was determined by using the historical volatility of the Company's share price before the grant date for previous three years.

The effective interest rate of the liability component on initial recognition is 15.8% per annum.

29. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2010	1,200,000,000	12,000
Issue of shares	101,500,000	1,015
At 31 December 2010 and 31 December 2011	1,301,500,000	13,015

29. SHARE CAPITAL *(Continued)*

Pursuant to the Placing and Subscription Agreements entered into between the Company, its parent company and the placing agent dated 29 April 2010 and 15 September 2010, the parent company of the Company agreed to sell 100,000,000 shares and 51,500,000 shares respectively in the Company by placing to independent placees. At the same time, the parent company of the Company agreed to subscribe 50,000,000 new ordinary shares of HK$0.01 each in the Company at HK$8.50 and 51,500,000 new ordinary shares of HK$0.01 each in the Company at HK$15.22 respectively. The net proceeds to be received by the Company from the subscriptions amounting to approximately HK$416 million and HK$775 million respectively will be applied for the expansion of the Group's existing production facilities and other capital expenditures. Details of the placings and subscriptions are set out in the Company's announcements dated 29 April 2010 and 15 September 2010 respectively.

30. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007 and will expire at the close of business on the day immediately preceding the tenth anniversary thereof. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive or non-executive directors of the Company or any of its subsidiaries business or joint venture partner, contractor, agent or representation, investor, vendor, supplier, etc. to subscribe for shares in the Company at a price not less than the highest of (i) HK$2.75; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

No option has been granted or agreed to be granted under the Scheme since the Scheme was set up.

31. OPERATING LEASES

The Group as lessee

	2011 HK$'000	2010 HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**2,068**	1,231
In the second to fifth years inclusive	**1,207**	830
	3,275	2,061

Operating lease payments represent rentals payable by the Group for certain items of its production plant, dormitory and office.

Lease are negotiated for terms of one to two years and rentals are fixed throughout the lease term.

32. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,182,746**	333,584

33. PLEDGE OF ASSETS

Other than as disclosed in note 22, at the end of the reporting period, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2011 HK$'000	2010 HK$'000
Property, plant and equipment	**847,099**	1,373,311
Prepaid lease payments	**65,227**	111,111
Bills receivables	**118,663**	230,576
Pledged bank deposits	**589,446**	381,624
	1,620,435	2,096,622

34. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,000 per month. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$598,000 (2010: HK$674,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$55,215,000 (2010: HK$41,049,000) are charged to profit or loss.

35. GOVERNMENT GRANTS

Incentive subsidies of HK$25,538,000 (2010: HK$6,545,000) have been received and recognised as income in profit or loss in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. There were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

For the year ended 31 December 2011, government subsidies of HK$8,294,000 (2010: HK$2,637,000) were received by the Group to subsidise the acquisition of property, plant and machinery. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to profit or loss of HK$5,432,000 (2010: HK$1,731,000). As at 31 December 2011, an amount of HK$10,585,000 (2010: HK$7,723,000) were included in trade and bills payable and accrued charges.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$12,050,000 (2010: HK$15,834,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the profit or loss of HK$9,431,000 (2010: HK$9,444,000).

36. RELATED PARTY DISCLOSURES

Compensation to key management personnel represents directors' remuneration and is disclosed in note 11.

37. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a)		Principal activities and place of operation
			2011	2010	
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	US$1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦製藥（成都）有限公司 (note b)	PRC	RMB250,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC

37. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2011	2010	Principal activities and place of operation
珠海康知樂醫藥有限公司 (note c)	PRC	RMB250,000,000	**100%**	100%	Inactive
珠海聯邦製藥股份有限公司 (note d)	PRC	RMB1,062,496,000	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦製藥有限公司 (note b)	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦製藥有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣西康樂藥品有限責任公司 (note c)	PRC	RMB5,000,000	**100%**	100%	Trading of pharmaceutical products PRC
珠海樂康醫藥有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 (note b)	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings PRC

37. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2011	2010	Principal activities and place of operation
中山金億食品有限公司 (note b)	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司 (note c)	PRC	RMB15,000,000	**100%**	100%	Investment holdings PRC
聯邦制藥（內蒙古）有限公司 (note b)	PRC	RMB1,165,200,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
內蒙古光大聯豐生物科技有限公司 (note c)	PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer PRC

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	2,594,937	3,755,856	4,643,177	6,502,817	**6,405,039**
Profit before taxation	558,341	532,530	693,370	1,163,280	**183,189**
Taxation	(47,878)	(102,361)	(151,927)	(189,123)	**(78,916)**
Profit for the year attributable to owners of the Company	510,463	430,169	541,443	974,157	**104,273**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	4,750,088	6,170,258	7,459,996	9,607,894	**11,864,905**
Total liabilities	(2,297,556)	(3,353,763)	(4,266,969)	(4,497,952)	**(6,688,284)**
Equity attributable to owners of the Company	2,452,532	2,816,495	3,193,027	5,109,942	**5,176,621**