annual report **2012**

# china
## animal healthcare

commitment to animal wellness


**HEADQUARTERS** - Beijing

**REPRESENTATIVE OFFICE**
- Chengdu, Hefei, Shenyang, Shijiazhuang

**PRODUCTION PLANT**
- Hohhot, Shenzhou, Shanxi, Shijiazhuang

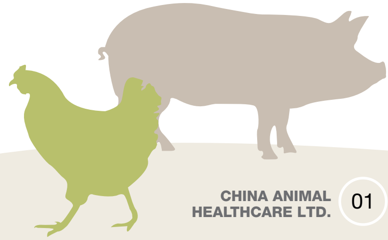
# Contents

# Corporate Profile

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

Our over 500 types of treatment and non-treatment animal drugs for poultry and livestock are distributed throughout the PRC directly to 32 large poultry corporations, veterinary stations in 26 provinces, autonomous regions and municipal cities and an extensive network of approximately 4,900 animal drug retailers who in turn sell to the farmers. Our range of biological drugs includes vaccines for swine fever, porcine reproductive and respiratory syndrome and animal foot-and-mouth disease which are mandatory for animals under the PRC Ministry of Agriculture's requirements. Our customer base spans across 28 provinces, municipalities and autonomous regions in China and is supported by our sales team comprising approximately 1,900 sales and technical personnel. As a value-added service, the Group also provides technical and support services to its customers, sharing our expertise in farming techniques and methodologies as well as imparting knowledge relating to animal health and treatment of animal diseases. We believe we are one of the first in the industry to provide such value-added services since 2001. The provision of these services has allowed the Group to keep in constant contact with its customers, thereby forging closer business relationships.

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



# Chairman's Statement

Overall, our full year turnover increased by a commendable 12.3% to reach a record high of RMB862.7 million in FY2012.

**Dear Shareholders,**

On behalf of the Board of Directors, I am pleased to present China Animal Healthcare Ltd.'s Annual Report and Audited Financial Statements of the Group and of the Company for the financial year ended 31 December 2012.

The year has come and passed swiftly, and it is time for us to take a breather and indulge ourselves in reminiscence. Let me begin with a recap of our operating performance for FY2012. Amid a tepid and lacklustre Chinese economy in 2012, the Group's operations have held up commendably well with a 12.3% increase in full year turnover, eclipsed perhaps by the lower year-on-year net profit of RMB105.9 million as a result of the financial loss on the convertible bonds of approximately RMB82.0 million. All our product segments reported higher year-on-year revenue, spearheaded by the 25.8% surge in vaccine sales. Discounting the financial effects of the convertible bonds, the adjusted net profit attributable to owners of the Company would be RMB215.2 million, representing a RMB7.8 million increase over the adjusted net profit of RMB207.4 million for FY2011. The only damper to an otherwise satisfactory FY2012 was arguably Blackstone's decision to redeem the convertible bonds. Our collaboration over the past two years may be brief but unquestionably mutually benefitting. Albeit their veritable decision to call for the early redemption, they remain as our shareholder and I have little doubt that our Company will continue to attract interests from established and notable investors.

Looking ahead, there is still much uncertainty over the prospects of the Chinese economy in the near term. China's gross domestic product growth fell to a thirteen-year low of 7.8% in 2012, albeit growth in the fourth quarter rebounding to 7.9% after seven straight quarters of slowdown. The rife speculation as to whether the latest data signals a re-acceleration of the Chinese economy or merely denotes a brief cyclical respite is likely to continue well into 2013. Regardless, one can expect the Chinese government to adopt financial reforms or monetary policies that will help steer the country towards a healthy and sustainable pace of economic development as the world's second largest economy moves from an export-led economy to a more consumption-led one. The reshaping of the Chinese economy sure bodes well for the Group as the animal husbandry industry is primarily driven by domestic consumption. We expect China's appetite for agricultural products to surge as its vast manufacturing sector revives. Management is therefore cautiously buoyant on the Group's growth momentum into 2013. While our formulated drug segments should continue to contribute strongly to our operations, the prospects of our biological drug products, in particular the animal foot-and-mouth disease vaccine, is expected to be the main engine of growth in the ensuing financial year. Management remains committed in its quest to seek new markets for the Group's vaccine products.

The board's decision to not recommend a dividend for the current financial year was a painstaking one. While our operating results and cash flows generated during the year purport a profit distribution, we had to mull over various cash-draining proceedings fronting the Group in the near term, in particular the imminent redemption of the convertible bond with Blackstone and the proposed delisting of the Company from the Singapore Stock Exchange. Above all, the Group must continue to maintain adequate funds to finance its on-going operations and ensure its business growth plans are not compromised by liquidity concerns under all circumstances. I therefore urge for your understanding and support as we thread through this transitional phase. Shareholders can be assured that the board will continue to assess the Group's funding obligations going forward and consider distribution of dividends when appropriate.

Finally, as cliché as this may sound, I like to take this opportunity to extend my most earnest commendation and gratitude to each and every employee of the Group for their efforts and dedication in discharging their responsibilities. I am also much obligated to my colleagues on the Board for their support and valuable guidance. The year ahead is expected to be challenging but eventful, as our Group seeks further growth in its core business, in particular the biological drugs business segment. Our goal remains clear and exact: to guide China Animal Healthcare into a leading animal drugs manufacturer synonymous with high-quality and reliable products; the epitome of unreserved commitment to animal wellness. To all our loyal shareholders and investors, thank you for your unwavering confidence and belief in the Company and its management. Our team at China Animal Healthcare will embrace each new challenge with optimism and humbleness, and we look forward to your continued support in the years ahead.

**Wang Yangang**

Executive Chairman and CEO

# Operations and Financial Review

The Group has achieved total revenue of RMB862.7 million in FY2012, representing an increase of RMB94.6 million or 12.3% over revenue of RMB768.1 million earned in FY2011. The increase in revenue was mainly boosted by the surge in sales of biological drugs from RMB257.3 million in FY2011 to RMB323.7 million in FY2012, augmented by the continuing strong performance in the powdered drugs segment.

The Group's formulated drugs segment recorded modest year-on-year increase in revenue. Sales of powdered drugs has increased by RMB27.8 million or 5.9% to RMB503.1 million in FY2012, compared to sales of RMB475.3 million in FY2011. Sales contribution from the injection form drugs segment remained relatively constant at RMB35.9 million in FY2012 as compared to prior year. Overall, the weaker than expected growth for the powdered drug sales can be in part attributed to the bird flu outbreak in China, in particular the Xinjiang Province during the first half of 2012. The slowdown in China's economy has also to some extent affected the powdered drug segment.

Sale of mandatory vaccines to provincial veterinary stations accounted for RMB290.3 million in FY2012, representing an increase of RMB68.2 million or 30.7% over FY2011. The substantial increase in mandatory vaccines in FY2012 is mainly attributed to surging sales contribution from animal foot and mouth disease ("FMD") vaccines of RMB112.7 million, compared to FMD vaccine sales of only RMB48.0 million in FY2011. Following its initial launch a year ago, the Group's FMD vaccines have since enjoyed increasing market acceptance and approbation. Porcine reproductive and respiratory syndrome ("PRRS") vaccines further contributed RMB145.8 million in revenue in FY2012, compared to PRRS sales of RMB140.2 million in FY2011. Swine fever vaccines accounted for RMB31.9 million in revenue in the FY2012, marginally lower than the RMB33.9 million of swine fever vaccine sales achieved in FY2011. Sale of common vaccines further contributed RMB33.4 million in FY2012.

Cost of sales of the Group constituted approximately 35.9% and 36.6% of its revenue in FY2012 and FY2011 respectively. Cost of sales increased by RMB28.8 million or 10.2% from RMB281.0 million in FY2011 to RMB309.8 million in FY2012. Overall gross profit margin remained stable at 64.1% in FY2012 (FY2011: 63.4%).

Excluding the effects of amortisation, gross profit margins remained relatively stable across all business segments in the current year. In FY2012, powdered form drugs, injection form drugs and biological drugs posted gross profit margins of 76.5%, 62.0% and 67.3% respectively, compared to 76.9%, 61.1% and 63.3% respectively in FY2011. The gross profit margin for injection form drugs is lower as the costs of raw materials and packaging materials required in the manufacture of the injection form drugs are comparatively higher compared to those for powdered form drugs. The increase in gross profit margin of biological drugs can be attributed mainly to the improvement in gross profit margin of the animal FMD vaccines in the current year as a result of better economies of scale.

Loss on derivative financial instrument amounted to RMB82.0 million in FY2012. The Company received a redemption notice from BCP/CAH Holdings (Cayman) L.P. ("BCP/CAH") dated 31 December 2012 for the full redemption of the Convertible Bonds on 15 January 2013 (the "Redemption Date"). In accordance with the terms of the Convertible Bonds, the Company will proceed to pay the redemption amount of US$54,351,000 in respect of the Convertible Bonds ("Redemption Amount") to the BCP/CAH within six months of the Redemption Date ("Redemption Settlement"). The subsequent redemption of the Convertible Bonds constitute an adjusting event after the reporting period as the redemption notice dated 31 December 2012 provide evidence of conditions existed at the end of the reporting period. Accordingly, the financial impact of the redemption of Convertible Bonds of RMB82.0 million has been charged to the profit or loss during the current financial year.

Other operating income in FY2012 relates mainly to net foreign exchange gain of RMB1.3 million and a government grant given by the department of science and technology of RMB1.9 million.

Distribution and selling expenses increased by RMB47.5 million or 30.5% from RMB155.7 million in FY2011 to RMB203.2 million in FY2012 due mainly to increases in payroll expenses, transportation expenses, marketing and promotion expenses, travelling expenses and office expenses of approximately RMB12.1 million, RMB5.0 million, RMB6.4 million, RMB18.7 million and RMB2.9 million respectively. Payroll expenses increased from RMB87.4 million in FY2011 to RMB99.5 million in FY2012

# Operations and Financial Review

due mainly to due mainly to higher sales commission paid out at the back of the 12.3% increase in sales. The increase in travelling expenses is due to the upward revision of travel allowances given to sales personnel for transport and lodging expenses. Travel allowance per salesperson on average has increased by about 40%.

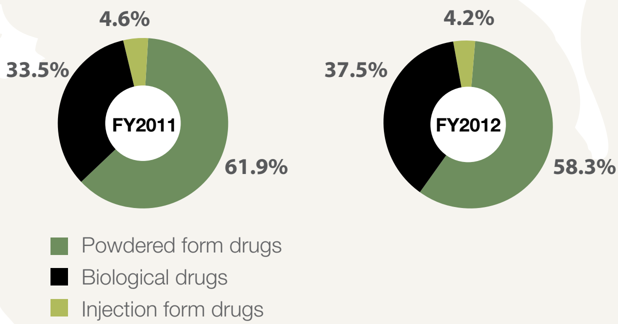
Administrative expenses increased by RMB9.3 million or 20.9% from RMB44.4 million in FY2011 to RMB53.6 million in FY2012. This is mainly due to increase in personnel expenses, depreciation expense and professional fees of RMB3.6 million, RMB4.3 million and RMB1.9 million respectively.

Finance costs increased by RMB7.7 million and relate mainly to interest expense on convertible bonds at amortised costs of RMB27.3 million and other interest expense of RMB6.1 million which relates mainly to working capital loans from HSBC Bank (China) Company Limited amounting to RMB65.0 million as at 31 December 2012. The increase in interest income of RMB1.0 million was due mainly to the increase in average deposits with banks during the current year as compared to FY2011.

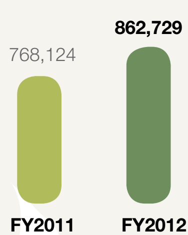
Tax expense decreased to RMB52.1 million in FY2012. Excluding the financial impact and interest expense on the convertible bonds, the Group's effective tax rate on the adjusted profit before tax would have been 18.0%. The Group's PRC subsidiaries are subject to tax at rates of 25%, except for certain subsidiaries which were awarded the high-tech enterprise status during the period and are therefore entitled to the preferential enterprise tax rate of 15% for 2 years commencing from FY2012. In addition, the Group has also provided for withholding tax of 10% on the portion of distributable profits derived by the PRC subsidiaries in FY2012 that is expected to be distributed out as dividend.

As a result of the foregoing, net profit for the year attributable to owners of the Company decreased by RMB117.2 million or 52.5% from RMB223.1 million in FY2011 to RMB105.9 million in FY2012. Net profit attributable to non-controlling interests amounted to RMB22.1 million in FY2012.

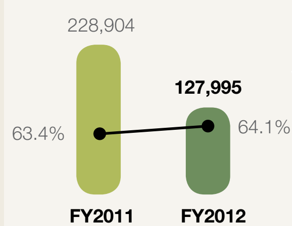
## Revenue by Products




## Revenue (RMB'000)




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



# Operations and Financial Review

### Statement of Financial Position Review

As at 31 December 2012, non-current assets amounted to approximately RMB937.1 million and comprised property, plant and equipment ("PPE") of RMB192.3 million, prepaid lease payments of RMB18.3 million, intangibles of RMB725.3 million and available-for-sale investment of RMB1.1 million.

The decrease of approximately RMB7.4 million in PPE during FY2012 was mainly attributed to depreciation charge of RMB15.8 million and partially offset by PPE additions of RMB8.4 million comprising mainly improvements to buildings, additions of plant and machinery, office equipment and motor vehicles.

Prepaid lease payments amounted to RMB18.3 million as at 31 December 2012 after amortisation charge of RMB0.4 million in FY2012. These land use rights have remaining useful lives ranging from approximately 42 to 47 years as at end FY2012.

Intangibles as at 31 December 2012 comprised production technology rights of RMB536.2 million, seed strains of RMB64.5 million and goodwill on acquisition of subsidiaries of RMB124.6 million.

The acquisition of Bigvet Biotech and Beijing Jianxiang Hemu in the second quarter of FY2010 resulted in the identification of production technology rights attributable to the production of PRRS vaccines and FMD vaccines of RMB460.0 million and RMB210.0 million respectively. These production technology rights are amortised over their estimated useful life of 10 years and amortisation expenses relating to these acquired production rights amounted to RMB67.0 million in FY2012. In addition, production technology rights of Shanxi Longkeer amounted to RMB4.8 million as at 31 December 2012, after an addition of RMB5.0 million and amortisation charge of RMB3.7 million in FY2012. These production technology rights have remaining useful lives ranging from less than a year to approximately 8 years as at end of FY2012.

A new seed strain amounting to RMB 57.0 million was purchased by the Group from a governmental animal disease research and development institute for the production of the FMD vaccine during FY2012. Seed strains amounted to RMB64.5 million in total after amortisation charge of RMB2.2 million during the year.

Goodwill on consolidation represents mainly the excess of the aggregate purchase consideration for Bigvet Biotech and Beijing Jianxiang Hemu of RMB498.0 million over the fair value of the net identifiable net assets acquired of RMB375.8 million. No impairment loss on the recognised goodwill is required as at 31 December 2012.

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

Current assets comprised inventories, trade receivables, prepayments and other receivables, pledged deposits and cash and cash equivalents. Current assets amounted to approximately RMB1,090.9 million as at end of FY2012, representing an increase of RMB219.2 million over end of FY2011. The increase is mainly attributed to increases in cash and cash balances and trade receivables of RMB106.5 million and RMB117.8 million respectively in FY2012, and partially offset by decrease in inventories and other receivables of RMB 0.9 million and RMB 4.1 million respectively.

Cash and cash equivalents, excluding pledged deposit of RMB27.7 million amounted to approximately RMB808.9 million as at 31 December 2012. Approximately RMB232.0 million was generated from the Group's operating activities. Net cash used in investing activities amounted to RMB58.1 million, of which RMB0.8 million, RMB 51.0 million and RMB 5.0 million pertained to PPE purchases, purchase of a seed strain and production technology right respectively. The total cost of PPE amounted to RMB8.4 million, of which RMB2.0 million was paid as deposit in prior year and RMB5.6 million remains payable as at year end. The total cost of seed strain amounted RMB57.0 million, of which RMB6.0 million is payable as at year end. Pledged deposits for the outstanding banking facilities decreased by RMB1.7 million during the year. Net cash used in financing activities amounted to RMB69.4 million. The Group repaid RMB78.0 million of the working capital loan and drew down a new working capital loan of RMB65.0 million in the current year. Dividend amounting to RMB47.7 million was also paid in the current year.

Trade receivables amounted to RMB215.4 million as at 31 December 2012, comprising RMB70.1 million due from provincial veterinary stations for compulsory vaccine sales, RMB131.7 million due from retailers of the Group's formulated animal drugs and RMB13.6 million from large-scale poultry enterprises. With the recent introduction of Good Supply Practice ("GSP") requirements, animal drugs retailers are compelled to allocate considerable resources to be GSP compliant, including the acquisition of the relevant infrastructure and storage equipment. For strategic purposes, the Group has extended one-off credit terms for current year sales to these retailers to aid them through this critical period when many were experiencing transitional working capital difficulties. The total credit extended to these retailers amounted to RMB144.5 million and are expected to be paid down over a period of 18 months and all subsequent sales are to resume to cash terms. As at date of this announcement, the total subsequent receipts collected after year end amounted to RMB34.6 million.

Other receivables amounted to RMB5.7 million as at 31 December 2012, comprising mainly security deposits for the compulsory vaccines sales bidding exercise and other sundry debtors.

Inventories decreased by RMB0.9 million, comprising mainly stockpile of PRRS vaccines and FMD vaccines of RMB22.1 million scheduled for delivery in the ensuing quarter. Raw materials amounted to RMB8.9 million as at 31 December 2012.

Current liabilities comprised primarily trade and other payables, borrowings, convertible bond and income tax liabilities. Current liabilities as at 31 December 2012 amounted to RMB506.2 million.

Trade payables amounted to RMB11.0 million as at end of FY2012, representing a decrease of RMB6.8 million over end of FY2011. Other payables increased by RMB51.0 million to RMB76.2 million as at end of FY2012. Other payables mainly comprise accrued operating expenses of RMB52.3 million and VAT and other taxes payable amounting to RMB12.1 million. Accrued operating expenses mainly pertained to personnel expenses of RMB46.6 million.

Total borrowings as at 31 December 2012 amounted to RMB65.0 million. The Group repaid RMB78.0 million of the working capital loan when it was due during the current year. In anticipation of increasing working capital requirements for the production of the animal FMD vaccines, the Group subsequently drew down a short-term working capital loan of RMB65.0 million from the HSBC Bank (China) Company Limited in FY2012. The loan is to be repaid in full upon maturity by March 2013.

Convertible bonds amounting to RMB338.8 million as at 31 December 2012 represent the redemption amount. The Group is expected to repay the amount in full by 15 July 2013.

Income tax liabilities amounted to approximately RMB15.4 million as at 31 December 2012 and mainly relate to the corporate tax payable by the PRC subsidiaries on the operating profits for FY2012.

Non-current liabilities, which comprises deferred tax liabilities amounted to RMB140.4 million as at 31 December 2012. Deferred taxation of RMB140.4 million arose mainly from the accounting for deferred tax effects on the production technology rights identified on consolidation of Bigvet Biotech and Beijing Jianxiang Hemu. In addition, cumulative accruals for PRC withholding tax on expected dividends out of the profits derived by the PRC subsidiaries amounted to RMB13.0 million as at 31 December 2012.

The Group's total equity comprised share capital, share premium, retained earnings, other reserves and non-controlling interests. Total equity as at 1 January 2012 amounted to approximately RMB1,301.1 million. Net profit attributable to owners of the Company and non-controlling interests amounted to RMB105.9 million and RMB22.1 million in the current year respectively. Consequently, total equity increased to RMB1,381.4 million as at 31 December 2012, of which RMB1,138.9 million is attributable to owners of the Company.

# Board of Directors


Wang Yangang


Sun Jinguo


Fu Shan


Steven Ma


Ong Kian Guan


Feng Jinglan


Wong Gang

**WANG Yangang** (王彥剛), aged 53, founder of our Group, is our Chairman, CEO and Executive Director. Mr. Wang established our Group in 1996 and was appointed as our Company's Director on 31 December 2007. Mr. Wang is also a director of our various subsidiaries, namely, Evanton, Bigvet Biotech and Shanxi Longkeer. He has over 20 years of experience in the animal drug industry. Mr. Wang is responsible for the strategic planning and overall management and operations of our Group. He also oversees our R&D activities. Prior to establishing our Group, he was a researcher and head of marketing of the Beijing Science Committee Experimental Animal Research Centre (北京科學技術研究院實驗動物研究中心) from 1986 to 1996. He obtained a Bachelor's degree in veterinary medicine from Hebei Agriculture University (河北農業大學) in 1983 and a Master's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1986.

**SUN Jinguo** (孫金國), aged 38, who joined the Group in 1999, is our Deputy CEO and Executive Director. Mr. Sun was appointed as our Director on 31 December 2007. He assists the CEO in the overall management and operations of our Group. He is also responsible for, inter alia, corporate development work focusing on new business ventures, mergers and acquisitions, feasibility studies and public relations of our Group. Mr. Sun is also a director of our various subsidiaries, namely, Beijing Healthcare, Shijiazhuang Maidisenda, Shijiazhuang Lixinkang, Shijiazhuang Greenxinkang, Hebei Qingshanhong, Shijiazhuang Keruida, Hebei Geruisi, Shijiazhuang Aoxin, Hebei Runshengzhongfu and Shijiazhuang Sikede. Mr. Sun has over 10 years of experience in the animal drug industry. Prior to joining us, Mr. Sun was the regional sales manager of Hebei Kexing Animal Drugs Co. Ltd. (**河北科星藥業有限公司**), a company principally engaged in animal drugs and additives, from 1998 to 1999. He obtained a Bachelor's degree in agriculture from Hebei Agriculture University (**河北農業大學**) in 1998.

**FU Shan** (**付山**), aged 44, was appointed as our Non-executive Director on 20 August 2010. Mr. Fu is a Senior Managing Director in The Blackstone Group and is based in Beijing, and has also served as the Chief Representative of China. Prior to joining The Blackstone Group in 2008, Mr. Fu worked in the Department of Foreign Investment in China's National Development and Reform Commission **（國家發展和改革委員會國外資金利用司）** from 2003 to 2008, the State Economic and Trade Commission of China **（國家經濟貿易委員會）** from 1993 to 2003, the Office of Economic and Trade in the State Council of China **（國務院經濟貿易辦公室）** from 1992 to 1993, and the Office of Production in the State Council of China (**國務院生產辦公室**) from 1991 to 1992. He obtained a Bachelor's degree in 1988 and a Master's degree in history in 1991 both from Peking University (**北京大學**) in Beijing, China.

**MA Yan Qing Steven** (**馬延青**), aged 35, was appointed as our Non-executive Director on 24 October 2012. Mr. Ma is a Managing Director and Head of Beijing for Themes Investment Partners and is based in Beijing. He is responsible for private equity investments across Greater China.

Prior to joining Themes in 2011, Mr. Ma worked at the Carlyle Group **(凱雷投資集團)** in the Asia Buyout group **(凱雷亞洲基金)**, covering Greater China with a focus on financial institution, technology, media and consumer industries. Before Carlyle, Mr. Ma worked for Colony Capital **(柯羅尼資本)**, where he was responsible for real estate, hospitality and distressed investments across Asia Pacific. Prior to joining Colony Capital, Mr. Ma worked at Lazard Freres **(拉扎德公司)** in New York and Hong Kong.

Mr. Ma obtained Bachelor of Science Degrees in Economics and Business Administration from Carnegie Mellon University **(卡內基-梅隆大學)**.

# Board of Directors

**ONG Kian Guan (王建源)**, aged 45, was appointed as our Independent Non-executive Director on 31 December 2007. Mr Ong chairs our Audit Committee and is a member of our Remuneration Committee and Nomination Committee. He is a practising member and a fellow of the Institute of Certified Public Accountants of Singapore (the "ICPAS"), and also a partner with Baker Tilly TFW LLP. He has more than 18 years of professional experience in financial audits of multi-national corporations and public listed companies from diverse industries. His experience also includes consultancy, particularly floatation of companies, financial due diligence and outsourced internal audit assignments. He is currently an independent director and the audit committee chairman of various public companies listed on SGX-ST, namely:

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

He is an Independent Non-executive Director of Weiye Holdings Limited. He is also a serving member of the auditing and assurance standards committee of the ICPAS. Mr. Ong obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1992.

**FENG Jinglan (馮靜蘭)**, aged 73, was appointed as our Independent Non-executive Director on 31 December 2007. Ms. Feng chairs our Nomination Committee and is a member of our Audit Committee and Remuneration Committee. She is the honoury chairperson of the CAHPA (Now known as Chinese Veterinary Medical Association (**中國獸藥協會**)). Prior to her appointment in the CAHPA in 2000, she was the vice head and supervisor of the Farming Bureau of the MOA (**農業部畜牧局獸醫處**) from 1994 to 2000. From 1989 to 1994, she was the vice station head of the National Farming and Veterinary Medicine of the MOA (**全國畜牧獸醫總站農業部畜牧獸醫局**). From 1982 to 1989, she was the vice-division head and subsequently the division head of the Veterinary Medicine Division of the Farming Bureau of the MOA (**農業部畜牧局獸醫處**). She obtained a Bachelor's degree in agriculture from Dongbei Agriculture College (**東北農業學院**) (now known as Northeast Agriculture University (**東北農業大學**)) in 1964.

**WONG Gang** (王剛), aged 42, was appointed as our Independent Non-executive Director on 31 December 2007. Mr. Wong chairs our Remuneration Committee and is a member of our Audit Committee and Nomination Committee. Mr. Wong is a partner in Shook Lin & Bok LLP, a law firm in Singapore and has worked there since 2000. He has more than 15 years of professional experience advising on a wide range of corporate finance and securities transactions, including stock market floatations, rights issues, securities regulation for public listed companies, mergers and acquisitions, joint ventures, as well as general corporate advisory work. He is also a member of Shook Lin & Bok LLP's China Practice Group and has advised multinational corporations and Singapore companies on cross-border transactions in the PRC and public offerings of securities in Singapore by companies from the PRC. Currently, he is the independent director of various companies listed on the SGX-ST, namely:

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

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

# Key Executives

**LI Jun** (**李雋**), aged 39, joined our Group in April 2002 and is our Group's Deputy CEO. Mr. Li assists the CEO in the overall management and operations of our Group. His responsibilities include the internal management and external liaison of administrative affairs, as well as the organisation and management of our employees and contract personnel (including recruitment, training, remuneration and salary increment). His experience prior to joining the Group include being the head of human resources for Beijing Jinyikang Technology Co., Ltd. (**北京金益康公司**) from 2001 to 2002, the general manager of Beijing Farm Technology Co., Ltd. (**北京農標科技有限公司**) from 1999 to 2001 and the human resource manager for Beijing Da Bei Nong Group (**北京大北農集團**) from 1996 to 1999. From 1993 to 1996, he was employed at Anhui Wuhu Foreign Trade Refrigeration Factory (**安徽蕪湖外貿冷凍廠**) as a production and operation personnel. Mr. Li obtained a diploma in food hygiene from Anhui Agriculture Techniques Teaching Institute (**安徽農業技術師範學院**) in 1993.

**GOH Kay Seng Edwin** (**吳啟升**), aged 39, joined our Group in April 2007 as our CFO and one of our Joint Company Secretaries. Mr. Goh oversees our Group's financial, accounting and tax matters, with respect to compliance with Singapore laws and regulations, and has been assisting on our Company's secretarial matters in the past years. Mr. Goh is currently a certified public accountant in Singapore. Immediately prior to his appointment with our Group, Mr. Goh was employed by Ernst & Young as an audit manager in 2007. From 2002 to 2007, following the merger of Arthur Anderson with Ernst & Young, he was involved in the assurance & advisory business services unit and led audit engagements in various companies. He also assisted certain companies in their listings and with mergers and acquisitions. In 1999, he joined Arthur Anderson and was involved in assurance and business advisory and transaction advisory services. In 1998, he worked at KPMG as an audit assistant. Mr. Goh obtained a Bachelor's degree in accountancy from Nanyang Technological University in 1998.

**SONG Yanmei (宋艷梅)**, aged 48, joined our Group in March 2000 and is currently the Assistant CEO of our Group. Ms. Song is responsible for all public relations matters relating to our Group (including dealing with enquiries from the public, news organisations and investors). Ms.Song was employed by the Dairy Farm of Beijing Beijiao Farm (北京市北郊農場奶牛分場) from 1991 to 2000. Ms. Song obtained a Bachelor's degree in agriculture from Shenyang Agriculture University (沈陽農業大學) in 1991.

**ZHU Chunbo (朱春波)**, aged 38, joined our Group in April 2003 and is currently the Head of Sales and Distribution of our Group. Mr. Zhu is responsible for our Group's sales and distribution matters, including logistics. Prior to joining our Group, Mr. Zhu was the head of sales in Puruina Animal Feed Co. Ltd. from 1998 to 2003. Between 1995 to 1998, he worked as a sales personnel in Asia Pacific Animal Feed Co. Ltd.. Mr. Zhu obtained a diploma in sport science from Langfang Teaching Institute (廊坊師範學院) in 1995.

**MA Juhong (馬聚宏)**, aged 43, joined our Group in March 1997 and is one of our Sales and Distribution Managers. Mr. Ma's responsibilities include the sales and distribution activities relating to Shenzhou Pagina-kang, Beijing Healthcare and Hebei Runshengzhongfu. Mr. Ma works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the deputy general manager of Hebei Province Xingtai Hongda Technology Co. Ltd. (河北省邢台市宏達科技有限公司) from 1995 to 1997 and the office manager of Hebei Province Xingtai Residential and Property Co-operative (河北省邢台市住宅合作社) from 1994 to 1995. He worked as a freelancer from 1987 to 1989. Mr. Ma obtained a diploma in communications from Hebei Electronics Technological Institute (河北機電職業技術學院) in 1987.

# Key Executives

**ZHANG Yuguang** (張宇光), aged 36, joined our Group in 2001 and is one of our Sales and Distribution Managers. Mr. Zhang is responsible for, amongst others, the sales and distribution activities relating to Shijiazhuang Aoxin, Shijiazhuang Greenxinkang, Hebei Runshengzhongfu and Hebei Geruisi. Mr. Zhang works closely with other Sales and Distribution Managers of our Group. Prior to joining our Group, he was the sales manager of Shijiazhuang Zhengda Hongfu Farming Co., Ltd. (石家莊正大鴻福牧業有限公司) from 1999 to 2001 and the business representative for Hebei Kexing Pharmaceutical Co., Ltd. (河北科星藥業有限公司) from 1998 to 1999. Mr. Zhang obtained a diploma in management and farming economics from Zhangjiakou Agriculture College (張家口農業高等專科學校) in 1998.

**WANG Yubin** (王玉斌), aged 37, joined our Group in 2000 and is one of our Sales and Distribution Managers. Mr. Wang is responsible for, amongst others, the sales and distribution activities relating to Shenzhou Pagina-kang, Shijiazhuang Maidisenda, Shijiazhuang Lixinkang, and Beijing Healthcare. Mr. Wang works closely with other Sales and Distribution Managers of our Group. He started his employment with our Group in 2000 after he graduated from Hebei Agriculture University (河北農業大學) with a Bachelor's degree in agriculture in 2000.

# Corporate Information

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

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

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

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

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

**ASSISTANT COMPANY SECRETARY**
Ira Stuart Outerbridge III
(FCIS)

**REGISTERED OFFICE**
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

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

**AUDITORS**
Deloitte Touche Tohmatsu
Beijing Branch
8/F Deloitte Tower
The Towers, Oriental Plaza
1 East Chang'An Avenue
Beijing 100738, PRC

Partner-in-charge: Patrick Cheng
*(since financial year ended 31 December 2012)*

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

**SINGAPORE SHARE TRANSFER AGENT**
M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

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

**PRINCIPAL BANKERS**
OCBC Bank
65 Chulia Street
OCBC Centre
Singapore 049513

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

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

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

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

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

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

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

# Corporate Governance Report

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

This Report describes the Company's corporate governance processes and practices with specific reference to the principles of the Singapore CG Code and the HK CG Code. For the year ended 31 December 2012, the Company has generally adhered to the principles and guidelines of the Singapore CG Code and the HK CG Code except for Guideline 3.1 and code provision A.2.1 (Chairman and CEO should be separate persons), and the reason for the deviation is stated under Principle 3.

## BOARD MATTERS

### Board's Conduct of its Affairs

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

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

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

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

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

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

The Board holds at least 4 formal meetings yearly with active participation of a majority of the directors entitled to be present, with additional meetings for particular matters convened when necessary. For the financial year ended 31 December 2012, the Board held four meetings. The Board shall also periodically review, at least annually, the internal control and risk management systems of the Company to ensure that there are sufficient guidelines and procedures in place to monitor its operations.

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

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

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

| | Board | | Audit Committee | | Nomination Committee | | Remuneration Committee | | 2012 Annual General Meeting | | Special General Meeting | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Meeting held | No. of Meeting attended | No. of Meeting held | No. of Meeting attended | No. of Meeting held | No. of Meeting attended | No. of Meeting held | No. of Meeting attended | No. of Meeting held | No. of Meeting attended | No. of Meeting held | No. of Meeting attended |
| Wang Yangang | 4 | 4 | 4 | 4* | 1 | 1* | 1 | 1* | 1 | 1 | 1 | 1 |
| Sun Jinguo | 4 | 4 | 4 | 4* | 1 | 1* | 1 | 1* | 1 | 1 | 1 | 1 |
| Fu Shan | 4 | 4 | 4 | 4* | 1 | 1* | 1 | 1* | 1 | 1 | 1 | 1 |
| Ma Yan Qing Steven^ | 4 | 1 | 4 | 1 | 1 | – | 1 | – | 1 | – | 1 | – |
| Joshua Ong Kian Guan | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Feng Jinglan | 4 | 3 | 4 | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wong Gang | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

* By invitation

^ Mr Ma Yan Qing Steven was appointed as a Non-executive Director of the Company on 24 October 2012.

Apart from regular Board meetings, the Chairman has held informal discussions with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

The Company recognizes the importance of appropriate training and development to refresh knowledge and skills for its Directors to ensure their contribution to the Board remains informed and relevant. Briefing and orientation sessions on the Group's business activities and strategic directions have been organized for all the Independent Non-executive Directors and follow-up briefings will be organized whenever necessary. Sessions on duties and responsibilities of directors have been conducted for all the Directors.

The Directors are aware that they should participate in continuous development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company Secretaries inform the Directors of upcoming conferences and seminars relevant to their roles, functions and duties of a listed company director. New releases issued by the SGX-ST and SEHK which are relevant to the Directors are circulated to the Board.

During the year ended 31 December 2012, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the HK CG Code on continuous professional development:

| | Corporate Governance/ Updated on Laws, Rules & Regulations | | Accounting/Financial/ Management or Other Professional Skills | |
|---|---|---|---|---|
| **Directors** | **Read Materials** | **Attended Seminars/ Briefings** | **Read Materials** | **Attended Seminars/ Briefings** |
| **Executive Directors** | | | | |
| Wang Yangang | √ | √ | | |
| Sun Jinguo | √ | √ | | |
| **Non-Executive Directors** | | | | |
| Fu Shan | √ | | √ | |
| Ma Yan Qing Steven *(appointed on 24 October 2012)* | √ | | √ | |
| **Independent Non-Executive Directors** | | | | |
| Joshua Ong Kian Guan | √ | √ | √ | √ |
| Feng Jinglan | √ | √ | | |
| Wong Gang | √ | √ | √ | |

The Board is responsible for performing the functions set out in the code provision D.3.1 of the HK CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the Singapore CG Code and the HK CG Code and disclosure in this Corporate Governance Report.

## BOARD COMPOSITION AND GUIDANCE

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

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

| Name of director | Board | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| Wang Yangang | √<br>Executive Chairman & CEO & Executive Director | – | – | – |
| Sun Jinguo | √<br>Deputy CEO & Executive Director | – | – | – |
| Fu Shan | √<br>Non-executive Director | – | – | – |
| Ma Yan Qing Steven | √<br>Non-executive Director | – | – | – |
| Joshua Ong Kian Guan | √<br>Lead Independent Non-executive Director | √<br>Chairman | √ | √ |
| Feng Jinglan | √<br>Independent Non-executive Director | √ | √<br>Chairman | √ |
| Wong Gang | √<br>Independent Non-executive Director | √ | √<br>Chairman | √ |

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

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

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

## BOARD MEMBERSHIP

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

**Nomination Committee ("NC")**

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

The duties of the NC include, to:

- identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;

- establish a process for the selection and appointment of new directors;
- determine orientation programs for new directors and recommend opportunities for the continuing training of the directors;
- make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- ensure that all directors submit themselves for re-appointment and re-election at regular intervals and at least every three years;
- assess the independence of INEDs;
- review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendation on any proposed changes to the board to complement the Company's corporate strategy;
- formulate and implement a succession plan;
- review the appointment of immediate family members (spouse, child, adopted child, step-child, sibling and parent) of any of the Company's directors or substantial shareholders to managerial positions in the Company or its subsidiaries;
- determine whether a director who has multiple board representations is able to and has been adequately carrying out his duties as director of the Company;
- ensure the internal guidelines are adopted to address the competing time commitments that are faced when directors serve on multiple boards;
- ensure complete disclosure of key information of directors in the Company's annual report as required under the Singapore CG Code and the HK CG Code;
- decide on how the board's performance may be evaluated and recommend objective performance criteria to the board;

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

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

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

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

The NC reviews and recommends to the Board the re-appointment of retiring directors standing for re-election and appointment of new directors. The review ensures that the director to be re-appointed or appointed is able to contribute to the ongoing effectiveness of the Board, has the ability to exercise sound business judgement, and has demonstrated leadership experience, high levels of professional skills and appropriate personal qualities. A retiring director shall be eligible for election. Clause 86(1) of the Company's Bye-Laws, provides that each director (including non-executive director and independent non-executive directors) shall retire at least once every three (3) years and shall be eligible for re-election. Pursuant to this, Mr Wang Yangang and Mr Wong Gang will retire at the Company's forthcoming AGM and will be eligible for re-election. Mr Ma Yan Qing Steven will also retire at the Company's forthcoming AGM pursuant to clause 85(2) of the Company's Bye-Laws and will not stand for re-election.

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

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

## BOARD PERFORMANCE

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

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

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

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

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

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

## ACCESS TO INFORMATION

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

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

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

## REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

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

*Remuneration Committee ("RC")*

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

The duties of the RC include, to:

- establish a formal and transparent procedure for developing remuneration policy and to make recommendations to the board on the remuneration policy, structure and framework for the directors and senior management

- review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

- determine and make recommendations to the board on specific remuneration packages for each executive director, each senior management and CEO (or executive of equivalent rank) of the Company and its subsidiaries. This should include benefits in kind, pension rights and compensation payments, including any compensation payable or loss or termination of their office or appointment;

- make recommendations to the board on the remuneration of non-executive directors;

- consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

- review all benefits and long-term incentive schemes (including share schemes) and compensation packages for the directors and senior management of the Company and its subsidiaries;

- review service contracts for the directors and senior management of the Company and its subsidiaries;

- administer the employees' share option scheme adopted by the Company;

- review the group's policy in allowing executive directors and senior management to accept appointments and retain payments from sources outside the group;

- review remuneration packages of group employees who are immediate family members (spouse, child, adopted child, step-child, sibling and parent) of any of the directors or substantial shareholders of the Company;

- review the annual remuneration report to be attached to the Company's annual report;

- report to the board on its activities and proposals;

- carry out such other duties as may be agreed to by the RC and the board;

- review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- ensure that no director or any of its associates is involved in deciding his own remuneration.

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

During the year, the RC met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

## LEVEL AND MIX OF REMUNERATION

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

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

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

The Group has also entered into letters of employment with each of the Director namely Mr Sun Jinguo, Mr Fu Shan, Mr Ma Yan Qing Steven, Madam Feng Jinglan, Mr Joshua Ong Kian Guan and Mr Wong Gang.

According to the terms of the letters of employment, the appointments are renewable on a yearly basis.

## DISCLOSURE ON REMUNERATION

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

The compensation paid or payable to the Board (including directors' fees) and senior management in remuneration bands of S$250,000 per annum, namely for remuneration bands of up to S$250,000 per annum ("**Band I**"), above S$250,000 and up to S$500,000 per annum ("**Band II**"), above S$500,000 and up to S$750,000 per annum ("**Band III**"), and above S$750,000 and up to S$1,000,000 per annum ("**Band IV**") for services rendered to the Group in FY2012 are as follows.

**Directors**

| | FY2012 | Salary % | Fees % | Bonus % | Other benefits % | Total % |
|---|---|---|---|---|---|---|
| Wang Yangang | Band IV | 26.3 | 5.5 | 67.9 | 0.3 | 100.0 |
| Sun Jinguo | Band I | 34.4 | 49.5 | 13.7 | 2.4 | 100.0 |
| Joshua Ong Kian Guan | Band I | – | 100.0 | – | – | 100.0 |
| Feng Jinglan | Band I | – | 100.0 | – | – | 100.0 |
| Wong Gang | Band I | – | 100.0 | – | – | 100.0 |
| Fu Shan | Band I | – | 100.0 | – | – | 100.0 |
| Steven Ma Yan Qing | Band I | – | – | – | – | – |

**Senior Management**

| | FY2012 | Salary % | Fees % | Bonus % | Other benefits % | Total % |
|---|---|---|---|---|---|---|
| Edwin Goh Kay Seng | Band I | 76.5 | – | 12.2 | 11.3 | 100.0 |
| Li Jun | Band I | 68.1 | – | 27.1 | 4.8 | 100.0 |
| Song Yan Mei | Band I | 68.1 | – | 27.1 | 4.8 | 100.0 |
| Zhu Chun Bo | Band I | 66.8 | – | 28.6 | 4.6 | 100.0 |
| Ma Ju Hong* | Band I | 79.8 | – | 14.6 | 5.6 | 100.0 |
| Zhang Yu Guang | Band I | 79.8 | – | 14.6 | 5.6 | 100.0 |
| Wang Yu Bin | Band I | 80.5 | – | 15.5 | 4.0 | 100.0 |

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

Save as disclosed above, the Company does not have any employees who are immediate family members of a director or the Chief Executive Officer whose remuneration exceeds S$150,000 in the financial year ended 31 December 2012.

Profiles of key executives are found on page 16 of this Annual Report.

## ACCOUNTABILITY AND AUDIT

### Accountability

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

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

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

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" on page 59 to page 60 of this annual report.

## AUDIT COMMITTEE ("AC")

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

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

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

The AC holds four meetings yearly to, inter alia, review and recommend to the Board the release of the year-end and quarterly financial statements. For the financial year ended 31 December 2012, the AC held four meetings to review quarterly, half-yearly and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

The AC meets from time to time with the Group's external and internal auditors and its management to review accounting, auditing and financial reporting matters so as to provide the necessary checks and balances to ensure that an effective control environment is maintained by the Group. Where necessary, the AC will also meet among themselves in the absence of management. The duties of the Audit Committee include, to:

**Relationship with the Company's external auditors**

(a) primarily responsible for making recommendations to the board on the appointment, re-appointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standards, and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) develop and implement policy on engaging an external auditor to supply non-audit services ensuring that such non-audit services would not in the AC's opinion, affect the independence of the external auditor. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) review the audit plans of the external auditors;

**Review of the Company's financial information**

(e) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the AC should focus particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from audit;

  (iv) the going concern assumptions and any qualifications;

  (v) compliance with accounting standards; and

  (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(f) Regarding (e) above:

(i) members of the AC should liaise with the Board and senior management and the AC must meet, at least twice a year, with the external auditors and at least once a year with the internal auditors; and

(ii) the AC should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

**Oversight of the Company's financial reporting system and internal control procedures**

(g) review the external auditors' evaluation of the system of internal accounting controls, policies and practices;

(h) review the group's financial and internal controls addressing financial, operational, compliance risks and risk management policies and systems;

(i) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(j) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(k) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(l) review the group's financial and accounting policies and practices;

(m) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(n) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(o) review the internal audit programme including the scope and results of the internal audit procedures;

(p) ensure that the internal auditors' primary line of reporting is to the AC, in particular the chairman of the AC;

(q) review transactions falling within the scope of the Singapore Listing Manual, in particular matters pertaining to interested person transactions and acquisitions and realizations as laid down therein;

(r) commission and review the findings of internal investigations conducted where fraud or impropriety is suspected, or where there is a failure of internal controls or infringement of any Singapore law, rule or regulation which is likely to have a material impact on the Group;

(s) undertake such other reviews and projects as may be requested by the board and report to the board its findings from time to time on matters arising and requiring the attention of the AC;

(t) review arrangements for employees to raise concern, in confidence, about possible wrongdoing in financial reporting or other matters and to ensure these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

(u) review any hedging policy which may be put in place by the Board in the future;

(v) generally undertake such other functions and duties as may be required by statute, the Singapore Listing Manual, Hong Kong Listing Rules, Singapore CG Code, HK CG Code and by such amendments made thereto from time to time; and

(w) consider other topics, as defined by the board.

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

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

The AC has recommended to the Board the re-appointment of Deloitte Touche Tohmatsu as the Company's auditors for the ensuing year at the forthcoming AGM. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditors.

In respect of the audit for 31 December 2012, the Company paid RMB2,000,000 to the external auditors for its statutory audit services. There were no other non-audit services provided by the external auditors.

The Company's annual results for the year ended 31 December 2012 has been reviewed by the AC.

## INTERNAL CONTROLS

### Internal Audit

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

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

The external auditors have not reported to AC any material internal control weakness identified in the course of audit of the Company's financial statements.

The AC has reviewed the effectiveness of the Group's system of internal controls in light of key business and financial risks affecting the operations. Based on the various management controls put in place, the Board with the concurrence of the AC is satisfied that the internal control systems provide reasonable assurance that assets are safeguarded and that proper accounting records are maintained and financial statements are reliable. Considering all available reports and work done, the Audit Committee and the Board are of the opinion that the Group's internal controls addressing financial, operational and compliance risk, were adequate as at 31 December 2012.

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

The Board of Directors have received assurance from CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances and also an effective risk management and internal control system has been put in place.

## COMMUNICATION WITH SHAREHOLDERS

### Communication with Shareholders & Greater Shareholder Participation

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

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

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

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

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

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

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

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

During the year under review, the Company has not made any changes to its Bye-laws. An up-to-date version of the Company's Bye-laws is also available on the Company's website and the website of SGX and SEHK.

## DEALINGS IN SECURITIES

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

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

## INTERESTED PERSON TRANSACTIONS

The interested person transactions transacted for the year ended 31 December 2012 by the Group are as follows:

| | Aggregate value of all interested person transactions conducted (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) RMB'000 | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) RMB'000 |
|---|---|---|
| Rental expense paid to | | |
| — Shijiazhuang Maidisen Animal Healthcare | 4,100 | — |
| — Beijing Haichenruian | 4,500 | — |
| — Shenzhou Pagina Animal Drug | 700 | — |
| Sale of finished goods to related parties | 2,922 | — |

Disclosure of interested person transactions is set out on page 148 of this Annual Report. The Company ensures that all interested person transactions comply with its internal control procedures and Chapter 9 of the Singapore Exchange Listing Manual, and are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders and will be properly documented.

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

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

## USE OF PROCEEDS

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

## MATERIAL CONTRACTS

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

## COMPANY SECRETARY

Mr Goh Kay Seng Edwin who is the CFO is also the in-house company secretary. He is supported by Ms Ngai Kit Fong of Tricor Services Limited, Hong Kong and Ms Yeoh Kar Choo Sharon of Corporate Alliance Pte. Ltd., Singapore, who are external service providers and act jointly as company secretaries. Mr. Goh is their primary contact person at the Company.

## SHAREHOLDERS' RIGHTS

**Convening an Extraordinary General Meeting by Shareholder**

1. shareholders holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition carrying the right of voting at general meetings of the Company, may by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

2 the requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one of more requisitionists.

3. the signatures and the requisition will be verified by the Company's share registrars. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised; and such meeting shall be held within two months after the deposit of such requisition.

4. if the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves, convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

## PUTTING FORWARD PROPOSALS AT GENERAL MEETING

1. On the requisition in writing of (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than one hundred Shareholders, the Company shall be under a duty to:

   (a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

   (b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2. The requisition must be signed by the requisitionists and deposited at the registered office of the Company for the attention of the Board or the Secretary of the Company and

   (a) in the case of requisition requiring notice of a resolution, not less than six weeks before the meeting; and in the case of any other requisition, not less than one week before the meeting.

   (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

3. The signatures and the requisition will be verified by the Company's share registrars. Upon confirming that the requisition is proper and in order, notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other shareholders of the Company by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

## PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

*Note: The Company will not normally deal with verbal or anonymous enquiries.*

## CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

China office:

| | |
|---|---|
| Address: | No. 6, Kangding Street, Beijing Economic and Technological Development Zone, Beijing 100176, PRC |
| Fax: | (86) 10 5157 1928 |

Singapore office:

| | |
|---|---|
| Address: | 36 Armenian Street, #06-12 Singapore 179934 |
| Fax: | (65) 68344410 |

For the attention of Mr Goh Kay Seng Edwin [CFO & Joint Company Secretary]

# Report of the Directors

The directors are pleased to present their report to the members with the audited consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiary companies (collectively the "Group") and the statement of financial position of the Company for the financial year ended 31 December 2012.

## 1 PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiary companies are set out in Note 40 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## 2 RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 61 to 155.

A final dividend of RMB3.0 cents per share in respect of the year ended 31 December 2011 was paid on 24 July 2012. No dividend has been recommended for the year ended 31 December 2012.

## 3 SUMMARY FINANCIAL INFORMATION

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

## 4 PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

## 5 SHARE CAPITAL, PERFORMANCE SHARE SCHEME AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, performance share scheme and convertible bonds during the year are set out in Notes 30, 36 and 29 to the consolidated financial statements, respectively.

## 6 PRE-EMPTIVE RIGHTS

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

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

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

## 8 RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 31 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## 9 MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 20.2% of the total sales for the year and sales to the largest customer included therein amounted to 6.6%. Purchases from the Group's five largest suppliers accounted for 39% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 11%.

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

## 10 DIRECTORS

The directors of the Company during the year were:

**Executive directors**

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

**Non-executive director**

| | |
|---|---|
| Mr Fu Shan | |
| Mr Ma Yan Qing Steven | (Appointed on 24 October 2012) |

**Independent non-executive directors**

Mr Joshua Ong Kian Guan
Mr Wong Gang
Mdm Feng Jinglan

Mr Wang Yangang and Mr Wong Gang will retire in accordance with Bye-Law 86(1) of the Company's Bye-Laws at the Company's forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Mr Ma Yan Qing Steven will retire in accordance with Bye-Law 85(2) of the Company's Bye-Laws at the Company's forthcoming annual general meeting and will not be standing for re-election.

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

## 11 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors or their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## 12 DIRECTORS' AND KEY MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the key management of the Group are disclosed in the annual report.

## 13 CHANGE IN DIRECTORS' INFORMATION

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

## 14 DIRECTORS' REMUNERATION

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

## 15 DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 37 the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

## 16 MANAGEMENT CONTRACTS

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

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

As at 31 December 2012, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

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

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

There was no change in the above-mentioned interest between the end of the financial year and 21 January 2013.

Save as disclosed above, as at 31 December 2012, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## 18 CAH PERFORMANCE SHARE SCHEME

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

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

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

During the year ended 31 December 2010, 13,000,000 share awards were granted and awarded to 223 employees (including directors and other key management personnel) under the Scheme.

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

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

## 18 CAH PERFORMANCE SHARE SCHEME *(continued)*

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

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

## 19 CONTRACT OF SIGNIFICANCE

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

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

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

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

## 21 INTERESTED PERSON TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Save as disclosed in Note 37 to the consolidated financial statements, there were no material interested person transactions (as defined under the Listing Manual of the SGX-ST), connected transactions and continuing connected transactions (as defined under the Listing Rules).

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

The Board of Directors have received an unqualified letter from the Company's auditors containing their findings and conclusions in respect of the continuing connected transactions which comprise various tenancy agreements as disclosed on the listing document of the Company (the "Listing Document") dated 15 October 2010, for the year ended 31 December 2012 by the Group in accordance with Rule 14A.38 of the Listing Rules. In addition to the tenancy agreement as disclosed in the Listing Document. On 1 December 2012, the Group entered into a new tenancy agreement with Beijing Haichenruian Technology Co., Ltd with an annual rental fee of RMB500,000 for the period from 1 January 2012 to 31 December 2012. In the opinion of the directors, this transaction is de minimis transaction exempted from all reporting, annual review, announcement and independent shareholder's approval requirements under the Rule 14(A).33(3) of the Listing Rules.

## 22 SUFFICIENCY OF PUBLIC FLOAT

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

## 23 DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

## 24 EVENTS AFTER THE REPORTING PERIOD

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

## 25 AUDITORS

Deloitte Touche Tohmatsu, Certified Public Accountants, have expressed their willingness to accept re-appointment as independent auditors.

On behalf of the Board of Directors,

**WANG YANGANG**
*Director*

**SUN JINGUO**
*Director*

14 March 2013

# Statement by Directors

In the opinion of the directors:

(a) the accompanying consolidated financial statements of the Group and the statement of financial position of the Company together with the notes thereto, as set out on pages 61 to 155, are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year then ended; and

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

On behalf of the Board of Directors,

**WANG YANGANG**
*Director*

**SUN JINGUO**
*Director*

14 March 2013

**TO THE SHAREHOLDERS OF CHINA ANIMAL HEALTHCARE LTD.**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Animal Healthcare Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 155, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 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 of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International 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
14 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | NOTES | 2012 RMB'000 | 2011 RMB'000 (restated) (Note 39) |
|---|---|---|---|
| Revenue | 5 | **862,729** | 768,124 |
| Cost of sales | | **(309,802)** | (281,039) |
| Gross profit | | **552,927** | 487,085 |
| Other income and gains | | **3,661** | 8,647 |
| Financial impact of convertible bonds | 29 | **(81,987)** | 38,432 |
| Distribution and selling expenses | | **(203,160)** | (155,681) |
| Administrative expenses | | **(53,622)** | (44,369) |
| Other expenses | 7 | **(7,796)** | (8,818) |
| Finance income | | **3,450** | 2,448 |
| Finance costs | 8 | **(33,360)** | (25,626) |
| **Profit before tax** | | **180,113** | 302,118 |
| Income tax expense | 9 | **(52,118)** | (73,214) |
| **Profit and total comprehensive income for the year** | 10 | **127,995** | 228,904 |
| **Profit and total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **105,929** | 223,095 |
| Non-controlling interests | | **22,066** | 5,809 |
| | | **127,995** | 228,904 |
| **Earnings per share** | | | |
| **— Basic (RMB cents)** | 14 | **6.66** | 14.02 |
| **— Diluted (RMB cents)** | 14 | **6.66** | 12.05 |

# Statements of Financial Position

## At 31 December 2012

| | NOTES | The Group 2012 RMB'000 | The Group 2011 RMB'000 | The Company 2012 RMB'000 | The Company 2011 RMB'000 (restated) (note 39) |
|---|---|---|---|---|---|
| **Non-current Assets** | | | | | |
| Property, plant and equipment | 15 | **192,312** | 199,746 | **–** | – |
| Prepaid lease payments | 16 | **18,315** | 18,728 | **–** | – |
| Available-for-sale financial asset | 17 | **1,125** | 1,125 | **–** | – |
| Intangible assets | 18 | **600,700** | 611,517 | **–** | – |
| Goodwill | 19 | **124,617** | 124,617 | **–** | – |
| Deferred tax assets | 32 | **–** | 5,100 | **–** | – |
| Investment in subsidiaries | 21(a) | **–** | – | **869,696** | 869,696 |
| Amounts due from a subsidiary | 21(b) | **–** | – | **249,893** | 301,856 |
| | | **937,069** | 960,833 | **1,119,589** | 1,171,552 |
| **Current Assets** | | | | | |
| Inventories | 22 | **33,201** | 34,069 | **–** | – |
| Trade receivables | 23 | **215,407** | 97,624 | **–** | – |
| Prepayments and other receivables | 24 | **5,664** | 9,801 | **–** | – |
| Amounts due from a subsidiary | 21(b) | **–** | – | **228,840** | 175,183 |
| Pledged deposits | 25 | **27,701** | 25,998 | **–** | – |
| Cash and cash equivalents | 25 | **808,934** | 704,182 | **31,969** | 45,343 |
| | | **1,090,907** | 871,674 | **260,809** | 220,526 |
| **Current Liabilities** | | | | | |
| Trade payables | 26 | **10,962** | 17,724 | **–** | – |
| Other payables and accrued charges | 27 | **76,189** | 25,152 | **7,011** | 5,325 |
| Amounts due to subsidiaries | 21(c) | **–** | – | **2,752** | 1,682 |
| Borrowings | 28 | **65,000** | 77,984 | **–** | – |
| Convertible bonds — loan component | 29 | **338,675** | – | **338,675** | – |
| Convertible bonds — derivative component | 29 | **–** | 109,087 | **–** | 109,087 |
| Provision for income tax | | **15,357** | 17,777 | **–** | – |
| | | **506,183** | 247,724 | **348,438** | 116,094 |
| **Net Current Assets (Liabilities)** | | **584,724** | 623,950 | **(87,629)** | 104,432 |
| **Total Assets Less Current Liabilities** | | **1,521,793** | 1,584,783 | **1,031,960** | 1,275,984 |

| | NOTES | The Group 2012 RMB'000 | The Group 2011 RMB'000 | The Company 2012 RMB'000 | The Company 2011 RMB'000 (restated) (note 39) |
|---|---|---|---|---|---|
| **Capital and Reserves** | | | | | |
| Issued equity/share capital | 30 | **79,075** | 79,075 | **147,127** | 147,127 |
| Reserves | 31 | **1,059,780** | 1,001,593 | **884,833** | 1,006,534 |
| Equity attributable to owners of the Company | | **1,138,855** | 1,080,668 | **1,031,960** | 1,153,661 |
| Non-controlling interests | | **242,515** | 220,449 | **–** | – |
| **Total Equity** | | **1,381,370** | 1,301,117 | **1,031,960** | 1,153,661 |
| **Non-current Liabilities** | | | | | |
| Convertible bonds — loan component | 29 | **–** | 122,323 | **–** | 122,323 |
| Deferred tax liabilities | 32 | **140,423** | 161,343 | **–** | – |
| | | **140,423** | 283,666 | **–** | 122,323 |
| | | **1,521,793** | 1,584,783 | **1,031,960** | 1,275,984 |

The consolidated financial statements on pages 61 to 155 were approved and authorised for issue by the board of directors on 14 March 2013 and are signed on its behalf by:

**Wang Yangang**
*DIRECTOR*

**Sun Jinguo**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

## For the year ended 31 December 2012

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NOTE | **Issued equity** RMB'000 | **Share premium** RMB'000 (note a) | **Merger reserve** RMB'000 (note b) | **Reserve fund** RMB'000 (note c) | **Retained earnings** RMB'000 | **Subtotal** RMB'000 | **Non-controlling interests** RMB'000 | **Total** RMB'000 |
| At 1 January 2011 | | 79,075 | 309,702 | (26,358) | 64,933 | 465,232 | 892,584 | 176,635 | 1,069,219 |
| Profit and total comprehensive income for the year | | – | – | – | – | 223,095 | 223,095 | 5,809 | 228,904 |
| Dividends | 13 | – | – | – | – | (35,011) | (35,011) | – | (35,011) |
| Appropriation to reserve fund | | – | – | – | 15,769 | (15,769) | – | – | – |
| Capital contribution from non-controlling shareholders of a subsidiary | | – | – | – | – | – | – | 38,005 | 38,005 |
| At 31 December 2011 | | 79,075 | 309,702 | (26,358) | 80,702 | 637,547 | 1,080,668 | 220,449 | 1,301,117 |
| Profit and total comprehensive income for the year | | – | – | – | – | 105,929 | 105,929 | 22,066 | 127,995 |
| Dividends | 13 | – | – | – | – | (47,742) | (47,742) | – | (47,742) |
| Appropriation to reserve fund | | – | – | – | 11,224 | (11,224) | – | – | – |
| At 31 December 2012 | | 79,075 | 309,702 | (26,358) | 91,926 | 684,510 | 1,138,855 | 242,515 | 1,381,370 |

Notes:

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

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

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

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | 2012<br>RMB'000 | 2011<br>RMB'000<br>(restated)<br>(note 39) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **180,113** | 302,118 |
| Adjustments for: | | |
| Financial impact of convertible bonds | **81,987** | (38,432) |
| Depreciation of property, plant and equipment | **15,871** | 15,360 |
| Property, plant and equipment written-off | **–** | 235 |
| Loss on disposal of property, plant and equipment | **–** | 3 |
| Release of prepaid lease payments | **413** | 413 |
| Amortisation of intangible assets | **72,817** | 63,533 |
| Foreign exchange gain, unrealised | **(2,293)** | (9,476) |
| Interest income | **(3,450)** | (2,448) |
| Finance costs | **33,360** | 25,626 |
| Operating cash flows before movements in working capital | **378,818** | 356,932 |
| Decrease (increase) in inventories | **868** | (18,987) |
| Increase in trade receivables | **(117,783)** | (41,011) |
| Decrease (increase) in prepayments and other receivables | **2,093** | (4,669) |
| (Decrease) increase in trade payables | **(6,762)** | 13,385 |
| Increase (decrease) in other payables and accrued charges | **42,056** | (23,373) |
| Cash generated from operations | **299,290** | 282,277 |
| Interest received | **3,100** | 2,311 |
| Income taxes paid | **(70,358)** | (85,493) |
| **NET CASH FROM OPERATING ACTIVITIES** | **232,032** | 199,095 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | Notes | 2012<br>RMB'000 | 2011<br>RMB'000<br>(restated)<br>(note 39) |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(785)** | (15,162) |
| Purchase of intangible assets | | **(56,000)** | – |
| Proceeds from disposal of property, plant and equipment | | **–** | 180 |
| Placement of pledged deposits | | **(21,701)** | (25,998) |
| Proceeds from release of pledged deposits | | **19,998** | 4,000 |
| Interest received from deposits pledged | | **350** | 137 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(58,138)** | (36,843) |
| **FINANCING ACTIVITIES** | | | |
| Contribution from non-controlling shareholders of a subsidiary | | **–** | 38,005 |
| Interest paid | | **(6,064)** | (2,864) |
| Proceeds from borrowings | | **65,000** | 77,984 |
| Repayment of borrowings | | **(77,984)** | (20,000) |
| Repayment of amount due to a former shareholder of a subsidiary | | **(2,627)** | – |
| Dividends paid | | **(47,742)** | (35,011) |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | | **(69,417)** | 58,114 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **104,477** | 220,366 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **704,182** | 485,095 |
| Effect of foreign exchange rate changes | | **275** | (1,279) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 25 | **808,934** | 704,182 |

## 1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares are dual primary listed on the Mainboard of the Singapore Exchange Securities Trading Limited and The Stock Exchange of Hong Kong Limited. The ultimate controlling party of the Group is Madam Li Chunhua. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Company's Annual Report.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in note 40.

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| Amendments to IAS 12 | Deferred Tax: Recovery of Underlying Assets; |
| Amendments to IFRS 7 | Financial Instruments: Disclosures — Transfers of Financial Assets; and |
| Amendments to IAS 1 | As part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in 2012 |

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

Except as described below, the application of the amended IFRSs 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 disclosures set out in these consolidated financial statements.

**Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in June 2012)**

Various amendments to IFRSs were issued in June 2012, the title of which is Annual Improvements to IFRSs (2009 — 2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to IAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013). IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has reclassified certain line items in the consolidated financial statements for the year ended 31 December 2011 to conform with the current year financial statement presentation. The reclassification has no material effect on the information in the third consolidated and Company statements of financial position and accordingly, the Group is not required to present the third consolidated and Company statements of financial position. Details of the reclassification are set out in note 39.

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009-2011 Cycle, except for the amendments to IAS1[1] |
| Amendments to IFRS 1 | Government Loans[1] |
| Amendments to IFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (as revised 2011) | Employee Benefits[1] |
| IAS 27 (as revised 2011) | Separate Financial Statements[1] |
| IAS 28 (as revised 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.

The directors of the Company (the "Directors") anticipate that the application of the new and revised IFRSs, other than those set out below, will have no material impact on the consolidated financial statements.

**IFRS 9 Financial Instruments**

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

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are 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 IFRS 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.

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

**IFRS 9 Financial Instruments** *(continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The Directors anticipate that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the Group's available-for-sale financial asset which is currently stated at cost less impairment and will be measured at fair value upon adoption. Presently, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

## 2. APPLICATION OF NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

### IFRS 13 Fair Value Measurement

IFRS 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 IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 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 IFRS 7 "Financial Instruments: Disclosures" will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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

The Directors anticipate that IFRS 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 may result in more extensive disclosures in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the application of the standard and hence have yet quantified the extent of the impact.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair values, 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 and services.

The principal accounting policies are set out below.

**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.

Income and expenses 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Basis of consolidation** *(continued)*

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

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

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

### Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Merger accounting for business combination involving entities under common control** *(continued)*

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

**Goodwill**

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Goodwill** *(continued)*

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

**Investment in subsidiaries**

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment loss.

**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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue recognition** *(continued)*

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Leasing**

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

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and buildings*

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

## 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 the respective functional currency (i.e. the currency of the primary 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

### 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 the profit or loss in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Retirement benefit scheme contribution**

Payments to defined contribution retirement benefit plans (including the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC and Central Provident Fund Scheme managed by Singapore Central Provident Fund Board) are charged as an expense when employees have rendered service entitling them to the contributions.

**Performance share scheme**

The Company adopted a Performance Share Scheme which is settled by granting shares of the Company to award the directors and employees. The grant shares is unconditional and immediately vest at the date of grant. The fair value of the shares granted is measured at fair value of the equity instruments at the date of grant and is recognised as an expense in the period in which the shares are granted.

**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 before tax as reported in the consolidated statement of comprehensive income because it excludes of items of income or expense that are taxable or deductible in other years and if further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Taxation** *(continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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 difference associated with 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 amounts of its assets and liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Taxation** *(continued)*

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

**Intangible assets**

*Intangible assets acquired separately*

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

*Research and development expenditure*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Intangible assets** *(continued)*

*Research and development expenditure (continued)*

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 listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in 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 (if any), on the same basis as intangible assets acquired separately.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Intangible assets** *(continued)*

*Intangible assets acquired in a business combination*

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

*Derecognition of intangible assets*

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss in the period when the asset is derecognised.

**Inventories**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments**

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

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

***Financial assets***

The Group's financial assets are classified into 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 debt instrument 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 and points 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***Financial assets*** *(continued)*

*Loans and receivables*

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

*Available-for-sale financial assets*

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

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 each reporting period (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

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

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

***Financial liabilities and equity instruments***

Debt 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 and the definitions of a financial liability and an equity instrument.

*Equity instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***Financial liabilities and equity instruments*** *(continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other 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.

*Financial liabilities*

Financial liabilities (including trade and other payables, amounts due to subsidiaries, borrowings and loan component of convertible bonds) are subsequently measured at amortised cost using the effective interest method.

***Convertible bonds***

Convertible bonds issued by the Company that contain both liability and multiple embedded components (including conversion option that will be settled other than by the exchange of fixed amount of cash or another financial instrument for a fixed number of the Company's own equity instruments and redemption options) are classified separately into respective items on initial recognition. Multiple embedded derivatives are generally treated as a single compound derivative. At the date of issue, both the liability and compound derivative components are recognised at fair value.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***Convertible bonds*** *(continued)*

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is 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 and compound derivative components in proportion to their relative fair values. Transaction costs relating to the compound derivative component is 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 unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Embedded derivatives***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

***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 assets and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible asset with finite useful lives 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 policy 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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

**Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The Directors estimate the useful lives of these property, plant and equipment to be between 5 to 30 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2012 was RMB192,312,000 (2011: RMB199,746,000). The Group assesses at least annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the depreciation charge in the year in which such estimate is changed and in future periods. A 10% difference in the expected useful lives of these assets from the Directors' estimates would result in approximately 1.1% (2011: 0.7%) variance in the Group's profit after tax for the year.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**Amortisation of intangible assets**

Seed strains and production technology rights are amortised on a straight-line basis over their estimated useful lives. The Directors estimate the useful lives of these intangible assets to be between 5 to 10 years. The carrying amount of intangible assets as at 31 December 2012 was RMB600,700,000 (2011: RMB611,517,000). The Group assesses annually the useful lives of the seed strains and production technology rights and if the expectation differs from the original estimate due to changes in the expected level of usage and/or technological developments, such difference will impact the amortisation charge in the year in which such estimate is changed. A 10% difference in the expected useful lives of these assets from the Directors' estimates would result in approximately 5.2% (2011: 2.8%) variance in the Group's profit after tax for the year.

**Estimated impairment of goodwill**

The carrying value of goodwill at 31 December 2012 amounted to RMB124,617,000 (2011: RMB124,617,000). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in note 20.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**Impairment of intangible assets**

Intangible assets are allocated to respective cash-generating unit for the purpose of impairment testing whenever there is indication that the intangible assets may be impaired. The recoverable amount of the cash-generating unit has been determined based on value in use calculation. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in note 20. No impairment loss of intangible assets is recognised in current and prior years. The carrying amount of the intangible assets as at 31 December 2012 was RMB600,700,000 (2011: RMB611,517,000).

## 5. REVENUE

Revenue of the Group represents the amount receivables of goods sold to customers excluding value-added tax ("VAT"). An analysis of the Group's revenue for the year by major categories of goods sold is as follows:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Powdered form drugs | **503,086** | 475,270 |
| Injection form drugs | **35,946** | 35,548 |
| Biological drugs | **323,697** | 257,306 |
| | **862,729** | 768,124 |

## 6. SEGMENT INFORMATION

For segment reporting purposes, the Group is organised into three operating segments, namely powdered form drugs, injection form drugs and biological drugs. Each operating segment represents a strategic business unit that offers different forms of animal drug products. The Group's risks and rates of return are affected predominantly by different type of products produced and sold.

Based on the three strategic business units' information, the chief operating decision maker, the Company's Chief Executive Officer, monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The accounting policies of the operating segments are the same as the Group's accounting policies disclosed in note 3.

No operating segments have been aggregated to form the following reportable operating segments and there were no inter-segment sales during the two years ended 31 December 2012.

Segment results represent the profit earned by each operating segment without allocation of financial impact of convertible bonds, corporate expenses, finance income, finance costs and income tax expense. The Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets and corporate cash and cash equivalents; and

- all liabilities are allocated to operating segments other than borrowings, other corporate payables, convertible bonds (loan and derivative components), deferred tax liabilities and provision for income tax.

## 6. SEGMENT INFORMATION *(continued)*

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Segment revenue | **503,086** | **35,946** | **323,697** | **862,729** |
| Segment results | **203,387** | **14,356** | **92,594** | **310,337** |
| Financial impact of convertible bonds | | | | **(81,987)** |
| Corporate expenses | | | | **(18,327)** |
| Finance income | | | | **3,450** |
| Finance costs | | | | **(33,360)** |
| Profit before tax | | | | **180,113** |
| **2011** | | | | |
| Segment revenue | 475,270 | 35,548 | 257,306 | 768,124 |
| Segment results | 214,251 | 14,828 | 60,670 | 289,749 |
| Financial impact of convertible bonds | | | | 38,432 |
| Corporate expenses | | | | (2,885) |
| Finance income | | | | 2,448 |
| Finance costs# | | | | (25,626) |
| Profit before tax | | | | 302,118 |

# The amount has been restated to conform with current year financial statement presentation (note 39).

## 6. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

*Segment assets*

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Segment assets | **683,300** | **62,684** | **1,249,689** | **1,995,673** |
| Unallocated assets: | | | | |
| — corporate cash and cash equivalents | | | | **32,303** |
| Total assets | | | | **2,027,976** |
| **2011** | | | | |
| Segment assets | 556,560 | 58,910 | 1,166,274 | 1,781,744 |
| Unallocated assets: | | | | |
| — deferred tax assets | | | | 5,100 |
| — corporate cash and cash equivalents | | | | 45,663 |
| Total assets | | | | 1,832,507 |

## 6. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities *(continued)*

*Segment liabilities*

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Segment liabilities | **44,655** | **3,878** | **31,607** | **80,140** |
| Unallocated liabilities | | | | |
| — other corporate payables | | | | **7,011** |
| — convertible bonds — loan component | | | | **338,675** |
| — borrowings | | | | **65,000** |
| — provision for income tax | | | | **15,357** |
| — deferred tax liabilities | | | | **140,423** |
| Total liabilities | | | | **646,606** |
| **2011** | | | | |
| Segment liabilities | 13,300 | 698 | 23,552 | 37,550 |
| Unallocated liabilities | | | | |
| — other corporate payables | | | | 5,326 |
| — convertible bonds — loan component | | | | 122,323 |
| — convertible bonds — derivative component | | | | 109,087 |
| — borrowings | | | | 77,984 |
| — provision for income tax | | | | 17,777 |
| — deferred tax liabilities | | | | 161,343 |
| Total liabilities | | | | 531,390 |

## 6. SEGMENT INFORMATION *(continued)*

### Other segment information

Amounts included in the measure of segment results or segment assets:

| | Powdered form drugs RMB'000 | Injection form drugs RMB'000 | Biological drugs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Capital expenditure | | | | |
| — property, plant and equipment | **2,532** | **–** | **5,905** | **8,437** |
| — intangible assets | **–** | **–** | **62,000** | **62,000** |
| Depreciation of property, plant and equipment | **1,677** | **133** | **14,061** | **15,871** |
| Amortisation of intangible assets | **–** | **–** | **72,817** | **72,817** |
| Release of prepaid lease payments | **–** | **–** | **413** | **413** |
| **2011** | | | | |
| Capital expenditure | | | | |
| — property, plant and equipment | 173 | – | 14,989 | 15,162 |
| Depreciation of property, plant and equipment | 1,698 | 136 | 13,526 | 15,360 |
| Amortisation of intangible assets | – | – | 63,533 | 63,533 |
| Release of prepaid lease payments | – | – | 413 | 413 |
| Loss on disposal of property, plant and equipment | 3 | – | – | 3 |
| Property, plant and equipment written off | – | – | 235 | 235 |

### Geographical segments

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

### Information about major customers

There is no customer who represents more than 10% of the total sales of the Group for the years ended 31 December 2012 and 2011.

## 7. OTHER EXPENSES

The balance of RMB7,796,000 (2011: RMB8,818,000) represents research and development expenses incurred by the Group during the year.

## 8. FINANCE COSTS

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Interest on bank borrowings wholly repayable within five years | **6,064** | 2,864 |
| Interest on convertible bonds — loan component | **27,296** | 22,762 |
| | **33,360** | 25,626 |

## 9. INCOME TAX EXPENSE

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| PRC Enterprise Income Tax: | | |
| Current year | **67,345** | 83,045 |
| Under provision in prior years | **593** | 786 |
| | **67,938** | 83,831 |
| Deferred tax (note 32) | | |
| Current year | **(9,093)** | (10,617) |
| Attributable to a change in tax rate | **(6,727)** | — |
| | **(15,820)** | (10,617) |
| | **52,118** | 73,214 |

## 9. INCOME TAX EXPENSE *(continued)*

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except for certain group entities which are entitled to a concessionary tax rate of 15% as disclosed below. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to a certificate issued by Inner Mongolia Province Science and Technology Commission in September 2011, Inner Mongolia Bigvet Biotech Co., Ltd. ("Bigvet Biotech") had been designated as a High and New Technology Enterprise and accordingly Bigvet Biotech enjoys a tax rate of 15% for the financial years 2012 to 2013.

In November 2011, Shenzhou Pagina-kang Technology Co., Ltd ("Shenzhou Pagina-kang"), Shijiazhuang Maidisenda Animal Medicine Company Limited ("Shijiazhuang Maidisenda") and Beijing Jianxiang Hemu Biological Technology Limited ("Beijing Jianxiang Hemu") had been designated as High and New Technology Enterprises by Hebei Province and Beijing Municipal Science and Technology Commissions. Accordingly, the enterprise income tax rate applicable to these entities is 15% for the financial years 2012 to 2013.

As the Group's income neither arises in, nor is derived from Singapore or Hong Kong, no provision for taxation has been made in these jurisdictions.

## 9. INCOME TAX EXPENSE *(continued)*

Tax charge for the year can be reconciled to profit before tax per the consolidated statement of comprehensive income as follows:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Profit before tax | **180,113** | 302,118 |
| Tax at the applicable income tax rates | **45,028** | 68,913 |
| Tax effect of expenses not deductible for tax purposes | **31,564** | 236 |
| Utilisation of deferred tax asset not recognised in previous year | **–** | (310) |
| Tax effect of tax losses not recognised | **60** | 3 |
| Effect on tax concessions granted to subsidiaries in the PRC | **(20,271)** | (1,094) |
| Additional tax deduction in respect of research and development expenses | **(749)** | – |
| Tax effect on the change in tax rate (note) | **(6,727)** | – |
| Withholding tax on undistributable profits of PRC subsidiaries | **2,620** | 4,680 |
| Under provision in prior years | **593** | 786 |
| Tax charge for the year | **52,118** | 73,214 |
| Effective tax rate | **28.9%** | 24.2% |

Note: During the year ended 31 December 2012, Beijing Jianxiang Hemu and Bigvet Biotech entitled to the concessionary tax rate of 15%. The effect of the change in tax rate from 25% in 2011 to 15% in 2012 has resulted in an adjustment of RMB6,727,000 to the deferred tax liabilities arising from the fair value adjustments of the buildings and intangible assets upon acquisition (note 32).

## 10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Depreciation of property, plant and equipment | **15,871** | 15,360 |
| Amortisation of intangible assets (included in cost of sales) | **72,817** | 63,533 |
| Total depreciation and amortisation | **88,688** | 78,893 |
| Staff costs, including directors emoluments disclosed in note 11 | **128,552** | 104,475 |
| Contributions to defined contribution plans | **2,344** | 1,614 |
| | **130,896** | 106,089 |
| Interest income from bank balances | **(3,450)** | (2,448) |
| Auditors' remuneration | **2,000** | 1,224 |
| Net foreign exchange gain (included in other income and gains) | **(1,056)** | (9,476) |
| Loss on disposal of property, plant and equipment | **–** | 3 |
| Property, plant and equipment written-off | **–** | 235 |
| Inventories written off | **–** | 867 |
| Release of prepaid lease payments | **413** | 413 |
| Operating leases payments in respect of rented premises | **9,513** | 8,800 |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2011: 6) directors were as follows:

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 (note) | Contributions to defined contribution plans RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| **Executive directors** | | | | | |
| Wang Yangang | 253 | 1,212 | 3,130 | 12 | 4,607 |
| Sun Jinguo | 253 | 176 | 70 | 12 | 511 |
| **Non-executive directors** | | | | | |
| Fu Shan | 100 | – | – | – | 100 |
| Ma Yan Qing Steven* | – | – | – | – | – |
| **Independent Non-executive directors** | | | | | |
| Joshua Ong Kian Guan | 304 | – | – | – | 304 |
| Feng Jinglan | 100 | – | – | – | 100 |
| Wong Gang | 293 | – | – | – | 293 |
| | 1,303 | 1,388 | 3,200 | 24 | 5,915 |

* Mr. Ma Yan Qing Steven was appointed as non-executive director of the Company with effect from 24 October 2012.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 (note) | Contributions to defined contribution plans RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| **Executive directors** | | | | | |
| Wang Yangang | 255 | 1,236 | 3,082 | 10 | 4,583 |
| Sun Jinguo | 255 | 126 | 70 | 10 | 461 |
| **Non-executive director** | | | | | |
| Fu Shan | 100 | – | – | – | 100 |
| **Independent Non-executive directors** | | | | | |
| Joshua Ong Kian Guan | 306 | – | – | – | 306 |
| Feng Jinglan | 100 | – | – | – | 100 |
| Wong Gang | 297 | – | – | – | 297 |
| | 1,313 | 1,362 | 3,152 | 20 | 5,847 |

Note: The discretionary bonuses of the Directors are determined by reference to the Group's performance during the year as well as the management position that the director is holding on.

Mr. Wang Yangang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

During the years ended 31 December 2012 and 2011, no emoluments has been paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the years ended 31 December 2012 and 2011. No remuneration was paid or payable to Mr. Ma Yan Qing Steven during the year ended 31 December 2012.

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: two) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the one (2011: three) individuals who are non-directors were as follows:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Salaries, bonuses and other short-term benefits | **928** | 1,369 |
| Contributions to defined contribution plans | **119** | 100 |
| | **1,047** | 1,469 |

## 12. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **Number of employees** | Number of employees |
| Less than HK$1,000,000 | **—** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| | **1** | 3 |

## 13. DIVIDENDS

| | **The Group and The Company** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Dividends recognised as distribution during the year: | | |
| 2011 final — RMB3.0 cents per share | **47,742** | — |
| 2010 final — RMB2.2 cents per share | **—** | 35,011 |
| | **47,742** | 35,011 |

No dividend in respect of the year ended 31 December 2012 has been proposed by the Directors since the end of the reporting period (2011: final dividend of RMB3.0 cents per share in respect of the year ended 31 December 2011).

## 14. EARNINGS PER SHARE

The calculation of the earnings per share is based on the following data:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Earnings attributable to the owners of the Company for the purpose of basic earnings per share | **105,929** | 223,095 |
| Effect of dilutive potential ordinary shares: | | |
| Financial impact of convertible bonds | **–** | (38,432) |
| Interest on convertible bonds — loan component | **–** | 22,762 |
| Earnings attributable to owners of the Company for the purpose of diluted earnings per share | **105,929** | 207,425 |

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| **Number of shares** | | |
| Number of ordinary shares for the purposes of basic earnings per share | **1,591,390,625** | 1,591,390,625 |
| Effect of dilutive potential ordinary shares arising from convertible bonds | **–** | 129,350,000 |
| | **1,591,390,625** | 1,720,740,625 |

Diluted earnings per share for the year ended 31 December 2012 is the same as basic earnings per share as the impact from the conversion of the convertible bonds was anti-dilutive.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **The Group** | | | | | |
| COST | | | | | |
| At 1 January 2011 | 103,272 | 110,616 | 2,123 | 7,323 | 223,334 |
| Additions | 10,283 | 3,337 | 405 | 1,137 | 15,162 |
| Disposal | — | — | — | (200) | (200) |
| Written-off | (314) | — | — | — | (314) |
| At 31 December 2011 | 113,241 | 113,953 | 2,528 | 8,260 | 237,982 |
| Additions | 1,980 | 5,936 | 240 | 281 | 8,437 |
| At 31 December 2012 | 115,221 | 119,889 | 2,768 | 8,541 | 246,419 |
| DEPRECIATION | | | | | |
| At 1 January 2011 | 4,770 | 15,434 | 993 | 1,775 | 22,972 |
| Charge for the year | 4,602 | 9,732 | 286 | 740 | 15,360 |
| Disposal | — | — | — | (17) | (17) |
| Written-off | (79) | — | — | — | (79) |
| At 31 December 2011 | 9,293 | 25,166 | 1,279 | 2,498 | 38,236 |
| Charge for the year | 5,697 | 9,066 | 274 | 834 | 15,871 |
| At 31 December 2012 | 14,990 | 34,232 | 1,553 | 3,332 | 54,107 |
| CARRYING VALUES | | | | | |
| At 31 December 2012 | 100,231 | 85,657 | 1,215 | 5,209 | 192,312 |
| At 31 December 2011 | 103,948 | 88,787 | 1,249 | 5,762 | 199,746 |

The above items of property, plant and equipment are depreciated on straight-line basis over the estimated useful lives as follows:

| | |
|---|---|
| Buildings | 30 years, or relevant lease term whichever is shorter |
| Plant and machinery | 5 to 15 years |
| Office equipment | 5 years |
| Motor vehicles | 5 to 10 years |

## 16. PREPAID LEASE PAYMENTS

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| COST | | |
| At 1 January and 31 December | **19,941** | 19,941 |
| AMORTISATION | | |
| At 1 January | **1,213** | 800 |
| Release to profit or loss | **413** | 413 |
| At 31 December | **1,626** | 1,213 |
| CARRYING VALUES | | |
| At 31 December | **18,315** | 18,728 |

The land is situated in Shanxi and Inner Mongolia, the PRC, with lease terms of 50 years.

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSET

**The Group**

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

The amount is measured at cost at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.

## 18. INTANGIBLE ASSETS

| | Seed strains RMB'000 | Production technology rights RMB'000 | Total RMB'000 |
|---|---|---|---|
| **The Group** | | | |
| COST | | | |
| At 1 January 2011 and 31 December 2011 | 11,500 | 685,000 | 696,500 |
| Additions | 57,000 | 5,000 | 62,000 |
| At 31 December 2012 | 68,500 | 690,000 | 758,500 |
| AMORTISATION | | | |
| At 1 January 2011 | 700 | 20,750 | 21,450 |
| Charge for the year | 1,200 | 62,333 | 63,533 |
| At 31 December 2011 | 1,900 | 83,083 | 84,983 |
| Charge for the year | 2,150 | 70,667 | 72,817 |
| At 31 December 2012 | 4,050 | 153,750 | 157,800 |
| CARRYING VALUES | | | |
| At 31 December 2012 | 64,450 | 536,250 | 600,700 |
| At 31 December 2011 | 9,600 | 601,917 | 611,517 |

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

## 18. INTANGIBLE ASSETS *(continued)*

Production technology rights also include technologies rights acquired in 2008 in relation to various animal biological drugs the Group produces. The estimated useful life of these technologies rights is 5 years from the date of acquisition.

## 19. GOODWILL

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| COST AND CARRYING VALUE | | |
| At 1 January and 31 December | **124,617** | 124,617 |

Particulars regarding impairment testing on goodwill are disclosed in note 20 below.

## 20. IMPAIRMENT TESTING ON GOODWILL, INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

For the purposes of impairment testing, goodwill and intangible assets have been allocated to three individual cash-generating units ("CGUs"), which comprise three different type of products, namely animal foot and mouth disease ("FMD") vaccine, porcine reproductive and respiratory syndrome ("PRRS") vaccine and swine fever and other common vaccines, respectively, included in the biological drugs segment. The details of the amounts allocated are as follows:

| | Goodwill | | Intangible assets | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| The Group | | | | |
| FMD vaccine | **69,741** | 69,741 | **440,117** | 431,267 |
| PRRS vaccine | **52,435** | 52,435 | **155,750** | 176,750 |
| Swine fever and other common vaccines | **2,441** | 2,441 | **4,833** | 3,500 |
| | **124,617** | 124,167 | **600,700** | 611,517 |

## 20. IMPAIRMENT TESTING ON GOODWILL, INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2012, the management carried out an impairment test on the intangible assets, primarily production technology rights and seed strains and goodwill arising from the acquisition of the aforesaid companies. The recoverable amounts of the identified CGUs have been determined based on value in use calculations using cash flow projections from financial budgets and forecasts approved by management covering a ten-year period (2011: ten-year period). The pre-tax discount rate of 15% (2011: 15%) applied to the cash flow projections reflects management's estimate of the risks specific to the CGUs. It is derived from the cost of capital plus a reasonable risk premium at the date of assessment of the CGUs. The growth rates in respect of production capacity and the bidding price used during the projection years are 5% to 20% (2011: 0% to 20%) made by reference to industry growth forecasts. The key factors for the value in use calculation are discount rates, growth rates and estimated useful lives of the intangible assets. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflow and outflow patterns, estimated based on the CGUs' past performance and management's expectation of the market development. The Directors believe that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

Based on review of the recoverable amounts of the identified CGUs, the Directors are of the view that no impairment on intangible assets and goodwill was required during both financial years.

## 21. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

### (a) Investment in subsidiaries

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Unlisted equity investments, at cost | **869,696** | 869,696 |

Details of the Company's principal subsidiaries are set out in note 40.

### (b) Amounts due from a subsidiary

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Amounts due from a subsidiary (note (i)) | **228,840** | 175,183 |
| Loan to a subsidiary (note (ii)) | **249,893** | 301,856 |
| | **478,733** | 477,039 |

Notes:

(i) The amounts due from a subsidiary are unsecured and interest-free and do not have a fixed term of repayment. In the opinion of the Directors, the amounts approximate its fair value.

(ii) The loan to a subsidiary bears interest at rates ranging from 2% to 5% per annum and is repayable by 2015. The fair value of the loan is not significantly different from its carrying amount based on discounting expected future cash flows at market lending rates of an equivalent instrument as at the end of the reporting period.

## 21. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES *(continued)*

### (c) Amounts due to subsidiaries

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Amounts due to subsidiaries | **2,752** | 1,682 |

The amounts due to subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

## 22. INVENTORIES

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Raw materials | **8,885** | 11,023 |
| Finished goods | **22,597** | 21,513 |
| Packing materials | **1,719** | 1,533 |
| | **33,201** | 34,069 |

The cost of inventories recognised as "cost of sales" during the year was RMB309,802,000 (2011: RMB281,039,000).

## 23. TRADE RECEIVABLES

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **214,405** | 97,744 |
| Trade receivables from related parties (note) | **1,002** | – |
| Less: Allowance for doubtful debts | **–** | (120) |
| | **215,407** | 97,624 |

Note: Related parties are companies controlled by a director of the Company.

The Group allows credit period ranging from 30 to 180 days to large-scale poultry enterprises and varies on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers.

In 2011, the Group's sales to animal drug retail customers are mainly on cash-on-delivery basis. During the year ended 31 December 2012, with the recent introduction of Good Supply Practice ("GSP") requirements, animal drug retailers are required to allocate considerable resources to be GSP compliant. For strategic purpose, the Group extended one-off credit terms of 18 months for sales to animal drug retailers to aid them through this critical period when many were experiencing transitional working capital difficulties. The related outstanding balances as at 31 December 2012 are expected to be collected within twelve months from the end of the reporting period. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Directors consider at the difference between the fair value and the carrying amounts of the invoice value of sales transactions are insignificant to the Group.

## 23. TRADE RECEIVABLES *(continued)*

### (a) Aged analysis of trade receivables

The following is an aged analysis of trade receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0—30 days | **13,438** | 26,352 |
| 31—90 days | **51,107** | 19,138 |
| 91—180 days | **126,938** | 26,661 |
| 181—365 days | **22,204** | 25,473 |
| Over 365 days | **1,720** | — |
| | **215,407** | 97,624 |

### (b) Trade receivables which are past due but not impaired

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is minimised. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate amount of RMB23,924,000 (2011: RMB25,473,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

## 23. TRADE RECEIVABLES *(continued)*

### (b) Trade receivables which are past due but not impaired *(continued)*

No allowance for doubtful debts have been made to the receivables past due as the Group satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 181—365 days | **22,204** | 25,473 |
| Over 365 days | **1,720** | — |
| | **23,924** | 25,473 |

### (c) Movements in the allowance for doubtful debts

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| At beginning of the year | **120** | 120 |
| Amount written off as uncollectible | **(120)** | — |
| At end of the year | **—** | 120 |

## 24. PREPAYMENTS AND OTHER RECEIVABLES

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Advances to suppliers | **87** | 3,306 |
| Deposit for purchases of property, plant and equipment | **429** | 2,473 |
| Deposit for tender bidding exercises (note) | **2,769** | 2,921 |
| Sundry debtors | **2,332** | 1,080 |
| Prepaid expenses | **47** | 21 |
| | **5,664** | 9,801 |

Note: The balance represented the deposits paid by Bigvet Biotech and Shanxi Longkeer Biological Pharmaceutical Co., Ltd. ("Shanxi Longkeer") for bidding of the sale contracts relating to mandatory vaccines to provincial veterinary stations. The amounts will be refunded in 2013.

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **836,635** | 730,180 | **31,969** | 45,343 |
| Pledged deposits (note 28) | **(27,701)** | (25,998) | **–** | – |
| Cash and cash equivalents of Group as per consolidated statement of cash flows | **808,934** | 704,182 | **31,969** | 45,343 |

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

Cash at banks carry interest at market rates which range from 0% to 0.50% (2011: 0% to 0.50%) per annum. The pledged deposits carry fixed interest rate of 1.35% (2011: 1.49%) per annum. The pledged deposits will be released upon the settlement of relevant bank borrowing which are repayable within one year and are classified as current assets.

## 26. TRADE PAYABLES

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

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0—30 days | **2,325** | 7,040 |
| 31—90 days | **2,974** | 3,420 |
| 91—180 days | **1,821** | 404 |
| 181—365 days | **2,814** | 3,713 |
| Over 365 days | **1,028** | 3,147 |
| | **10,962** | 17,724 |

There average credit period on purchases of goods is 0 to 90 days.

## 27. OTHER PAYABLES AND ACCRUED CHARGES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Accrued expenses (note a) | **52,347** | 11,123 | **7,011** | 5,325 |
| VAT and other taxes payables | **12,094** | 10,270 | **–** | – |
| Amount due to a former shareholder of a subsidiary (note b) | **–** | 2,627 | **–** | – |
| Payables for acquisition of property, plant and equipment, and intangible assets | **11,608** | – | **–** | – |
| Sundry creditors | **140** | 1,132 | **–** | – |
| | **76,189** | 25,152 | **7,011** | 5,325 |

Notes:

(a) The amount represents mainly payroll payable to employees.

(b) The amount due to a former shareholder of Bigvet Biotech was non-trade in nature, unsecured and interest-free. The amount was repaid in 2012.

## 28. BORROWINGS

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Secured RMB term loans | **65,000** | 77,984 |

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

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

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **RMB'000** | **Interest** | RMB'000 | Interest |
| Variable rate borrowings | **65,000** | **Not lower than the daily Benchmark Borrowing Rate of the People's Bank of China** | 77,984 | Not lower than the daily Benchmark Borrowing Rate of the People's Bank of China |

As at 31 December 2012, the RMB term loans of approximately RMB65.0 million were secured on (i) a corporate guarantee of approximately United States Dollar ("US$")16.5 million (equivalent to RMB102,826,000) from the Company, (ii) a corporate guarantee of approximately RMB60.0 million from Shenzhou Pagina-kang, (iii) a corporate guarantee of approximately RMB40.0 million from Bigvet Biotech; and (iv) a pledge of approximately RMB27.7 million of bank deposits (note 25).

As at 31 December 2011, the RMB term loans of approximately RMB78.0 million were secured on (i) a corporate guarantee of approximately US$16.5 million (equivalent to RMB103,856,000) from the Company, (ii) a corporate guarantee of approximately RMB60.0 million from Shenzhou Pagina-kang, (iii) a corporate guarantee of approximately RMB40.0 million from Bigvet Biotech; and (iv) a pledge of approximately RMB26.0 million of bank deposits (note 25).

## 29. CONVERTIBLE BONDS

The convertible bonds were issued to a third party on 11 August 2010 at zero-coupon with principal amounts of US$40.0 million and will originally mature on 10 August 2015 (the "Maturity Date"). The convertible bonds have a conversion period at any time commencing from 1 January 2012 up to five business days before the Maturity Date, and will be converted into shares at a price of Singapore Dollar ("S$") 0.40 per share.

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

The holders of the convertible bonds served the redemption notice dated 31 December 2012 for the full redemption of the convertible bonds on 15 January 2013 (the "Redemption Date"). Accordingly, the convertible bonds became a non-derivative financial liability of the Company and the Group at 31 December 2012.

In accordance with the terms of the convertible bonds agreement, the Company will proceed to pay the redemption amount of US$54,351,000 (equivalent to RMB338,675,000) in respect of the convertible bonds ("Redemption Amount") to the holders of the convertible bonds within six months from the Redemption Date ("Redemption Settlement Date"). Interest is payable by the Company on the Redemption Amount for the period between the Redemption Date and the Redemption Settlement Date based on an interest rate equivalent to that which would be chargeable by DBS Bank Limited on an equivalent US$ corporate loan.

Before the service of redemption notice by the holders of the convertible bonds, the convertible bonds contain two components, liability component and compound derivative component (comprising the conversion option and the redemption option). The compound derivative component is carried at fair value with changes in fair value recognised in profit or loss.

## 29. CONVERTIBLE BONDS *(continued)*

The carrying amounts of the liability component and derivative component of the convertible bonds as at end of the reporting period and the movements thereon during the reporting period are as follows:

| | The Group and The Company | |
|---|---|---|
| | **Loan component** RMB'000 | **Derivative component** RMB'000 |
| At 1 January 2011 | 104,661 | 153,174 |
| Interest at amortised cost | 22,762 | — |
| Financial impact of convertible bonds | — | (38,432) |
| Exchange realignment | (5,100) | (5,655) |
| At 31 December 2011 | 122,323 | 109,087 |
| Interest at amortised cost | 27,296 | — |
| Financial impact of convertible bonds | 190,746 | (108,759) |
| Exchange realignment | (1,690) | (328) |
| At 31 December 2012 | 338,675 | — |

During the year ended 31 December 2012, the financial impact of convertible bonds charged to profit or loss is amounting to RMB81,987,000.

## 29. CONVERTIBLE BONDS *(continued)*

As at 31 December 2011, the fair value of the compound derivative component of the convertible bonds was determined based on the valuation carried out by an independent firm of valuers using the Binomial Option Pricing Model. The key inputs used in the model were as follows:

| | 2011 |
|---|---|
| Singapore share price (S$) | 0.230 |
| Hong Kong share price (HK$) | 1.41 |
| Expected volatility (%) | 42.1 |
| Risk free interest rate (%) | 0.48 |
| Expected dividend yield (%) | 1.86 |

Any changes in the key inputs into the model would result in changes in the fair value of the compound derivative component.

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

## 30. ISSUED EQUITY/SHARE CAPITAL

### (a) Share capital of the Company

The details of share capital of the Company are set out as follows:

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | | | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| **Authorised** | | | | |
| At beginning and end of the year | **2,500,000,000** | 2,500,000,000 | **250,000** | 250,000 |
| **Issued and fully paid** | | | | |
| At beginning and end of the year | **1,591,390,625** | 1,591,390,625 | **159,139** | 159,139 |

| | The Company | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Presented in the statement of financial position as: | | |
| At beginning and end of the year | **147,127** | 147,127 |

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

## 30. ISSUED EQUITY/SHARE CAPITAL *(continued)*

### (b) Issued equity of the Group

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Presented in the statement of financial position as: | | |
| At beginning and end of the year | **79,075** | 79,075 |

The issued equity of the Group represents the share capital of Evanton Pte. Ltd ("Evanton") (the legal subsidiary) amounting to RMB4,045,000 before the completion of reverse acquisition in December 2007 and the deemed cost of acquisition made by Evanton of RMB40,000,000, which is determined using the fair value of the issued equity of the Company before the acquisition, for the purpose of reverse acquisition accounting.

Subsequent to the completion of the reverse acquisition, the Company further issued ordinary shares totaling HK$39,300,000 at HK$0.10 per share (equivalent to RMB35,030,000). Accordingly, the capital of the Group as of 31 December 2012 is RMB79,075,000 (2011: RMB79,075,000).

### (c) Conditional subscription of shares and warrants in the Company

In conjunction with the possible delisting offer announced by the Company on 22 May 2012, the Company has entered into a conditional subscription agreement with certain investors for subscription of shares and warrants of the Company, proceeds of which will be used to partly fund the possible delisting offer to be made by the Company in the Singapore Exchange Securities Trading Limited. The details of the subscription agreement are set out in the announcement made by the Company on 26 September 2012.

## 31. RESERVES

### (a) The Group

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

### (b) The Company

| | Share premium RMB'000 | Contributed surplus RMB'000 | Accumulated profits (losses) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2011 | 309,702 | 691,988 | (15,040) | 986,650 |
| Profit and total comprehensive income for the year | — | — | 54,895 | 54,895 |
| Dividends | — | (35,011) | — | (35,011) |
| At 31 December 2011 | 309,702 | 656,977 | 39,855 | 1,006,534 |
| Loss and total comprehensive expense for the year | — | — | (73,959) | (73,959) |
| Dividends | — | (47,742) | — | (47,742) |
| At 31 December 2012 | 309,702 | 609,235 | (34,104) | 884,833 |

The contributed surplus of the Company amounting to RMB751,941,000 was arising from the issue of 2,296,781,250 ordinary shares in exchange for the entire shares in Evanton during the reverse acquisition in 2007. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution.

## 32. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **–** | 5,100 |
| Deferred tax liabilities | **(140,423)** | (161,343) |
| | **(140,423)** | (156,243) |

The following are the major deferred tax (liabilities) assets recognised and movement thereon during the current and prior years:

| | Fair value adjustment on building upon acquisition | Fair value adjustment on intangible assets upon acquisition | Tax losses | Undistributable profits of subsidiaries | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'0000 (note) | RMB'000 |
| At 1 January 2011 | (1,418) | (164,437) | 4,700 | (5,705) | (166,860) |
| (Charge) credit to profit or loss | 64 | 14,833 | 400 | (4,680) | 10,617 |
| At 31 December 2011 | (1,354) | (149,604) | 5,100 | (10,385) | (156,243) |
| (Charge) credit to profit or loss | 53 | 16,760 | (5,100) | (2,620) | 9,093 |
| Effect of the change in tax rate (note 9) | 22 | 6,705 | – | – | 6,727 |
| At 31 December 2012 | (1,279) | (126,139) | – | (13,005) | (140,423) |

## 32. DEFERRED TAXATION *(continued)*

Note: The amount represents deferred taxation in respect of the temporary differences attributable to undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 5% or 10% as the Directors considered the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised was RMB852,217,000 (2011: RMB595,221,000). No liability has been recognised in respect of these differences because the Group is in the position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unutilised tax losses of RMB251,000 (2011: RMB12,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the year ending 31 December:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 2016 | **12** | 12 |
| 2017 | **239** | — |
| | **251** | 12 |

## 33. CAPITAL RISK MANAGEMENT

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

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

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

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

| | **2012** | 2011 |
|---|---|---|
| Net debt to equity ratio | **0.29** | 0.24 |

## 34. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Available-for-sale financial asset, at cost | **1,125** | 1,125 | **–** | – |
| Loans and receivables (including cash and cash equivalents) | **1,057,143** | 834,278 | **510,702** | 552,382 |
| **Financial liabilities** | | | | |
| Amortised cost | **478,732** | 232,913 | **348,438** | 129,330 |
| Fair value through profit or loss — convertible bonds — derivative component | **–** | 109,087 | **–** | 109,087 |

**Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, cash and bank balances, trade and other payables, borrowings and convertible bonds. The Company's major financial instruments include amounts due from a subsidiary, cash and bank balances, amounts due to subsidiaries and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk***

*(i) Foreign currency risk*

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

As at year end, other than the convertible bonds which are denominated in US$, the Group and the Company hold certain cash and short term deposits denominated in foreign currencies for working capital purposes.

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

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk*** *(continued)*

*(i) Foreign currency risk (continued)*

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **The Group** | | | | |
| Foreign currency: | | | | |
| US$ | **4,760** | 15,753 | **338,675** | 231,410 |
| S$ | **1,027** | 7,641 | **–** | – |
| Hong Kong Dollar ("HK$") | **287** | 296 | **–** | – |
| **The Company** | | | | |
| Foreign currency: | | | | |
| US$ | **4,374** | 11,121 | **338,675** | 231,410 |
| S$ | **736** | 7,427 | **–** | – |
| HK$ | **287** | 296 | **–** | – |

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk*** *(continued)*

*(i) Foreign currency risk (continued)*

Sensitivity analysis

The following table details of the Group's and the Company's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variable are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2011: 5%) change in foreign currency rates.

| | US$ | | S$ | | HK$ | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **The Group** | | | | | | |
| Increase (decrease) in profit for the year: | | | | | | |
| – if RMB weakens against foreign currencies | **(16,700)** | (10,783) | **51** | 382 | **14** | 15 |
| – if RMB strengthens against foreign currencies | **16,700** | 10,783 | **(51)** | (382) | **(14)** | (15) |
| **The Company** | | | | | | |
| Increase (decrease) in profit for the year: | | | | | | |
| – if RMB weakens against foreign currencies | **(16,715)** | (11,014) | **37** | 371 | **14** | 15 |
| – if RMB strengthens against foreign currencies | **16,715** | 11,014 | **(37)** | (371) | **(14)** | (15) |

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk*** *(continued)*

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing bank borrowings at variable rates (see note 28 for details of these borrowings). The Group currently does not have an interest rate policy except that the Group would regularly review the market interest rate to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group may enter into interest rate swap arrangement to mitigate the interest rate risk if when needs arise.

The Company is exposed to fair value interests risk in relation to fixed rate loan to a subsidiary, details of which are set out in note 21(b).

In the management's opinion, the interest rate risk in relation to variable rate bank balances and deposits are insignificant due to these balances are either within short maturity period or the outstanding balances are not significant.

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk*** *(continued)*

*(ii) Interest rate risk (continued)*

Sensitivity analysis

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank borrowings. The analysis is prepared assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year.

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Change in interest rate | **75 basis point** | 75 basis point |
| Increase (decrease) in profit for the year | | |
| — as the result of increase in interest rate | **(4,144)** | (5,849) |
| — as the result of decrease in interest rate | **4,144** | 5,849 |

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the respective year.

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Credit risk***

As at 31 December 2012, the Group's and the Company's maximum exposure to credit risk which cause financial loss to the Group and the Company due to failure to discharge an obligation by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in respective statements of financial position.

The Group's sales to animal drug retail customers are mainly on a cash-on-delivery basis with the exception during the current year, whereby the Group extended a one-off credit terms of 180 days to the animal drug retailers as detailed in note 23. In order to minimise the credit risk, credit terms are only granted to large-scale poultry enterprises and drug retail customers, and vary on a case to case basis based on the creditworthiness and the Group's existing relationships with its customers. The Group trades only with recognised and creditworthy third-parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Company's credit risk is related to the amounts due from a subsidiary arising from advances granted to the subsidiary and dividend receivables. The Directors consider that the Company's credit risk is limited as the subsidiary has the ability to repay the amounts owed to the Company by demanding the payments from the Group's PRC subsidiaries which has sufficient cash and bank balances.

The credit risk on cash and cash equivalents and pledged deposits is limited because the counterparties are banks with good reputation.

The Group does not have any significant concentration of credit risk to certain counterparties as the exposure are spreaded over a number of counterparties and customers. The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables as at the end of the reporting period.

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Liquidity risk***

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturity of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. In the management of its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Details on the repayment terms of the Group's borrowings are set out in note 28.

As at 31 December 2012, the Company is in net current liabilities position of RMB87,629,000 (2011: net current assets of RMB104,432,000) primarily arising from the convertible bonds payable in 2013. The Directors considers that the Company will have sufficient fund to repay the financial obligations when they fall due because the Company is able to demand for settlement of the amounts due from a subsidiary and require the PRC subsidiaries to declare and pay dividends to the Company. Moreover, the Group has sufficient cash and cash equivalents and no restriction for the remittance of dividends payments and settlement of the amount owed to the Company.

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

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

#### *Liquidity risk* *(continued)*

| | Repayable on demand or within one month RMB'000 | 1-3 months RMB'000 | 3 months to 1 year RMB'000 | 1 to 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount at end of the reporting period RMB'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2012** | | | | | | |
| Trade payables | **9,760** | **1,202** | **–** | **–** | **10,962** | **10,962** |
| Other payables | **64,095** | **–** | **–** | **–** | **64,095** | **64,095** |
| Borrowings | **–** | **57,688** | **8,113** | **–** | **65,801** | **65,000** |
| Convertible bonds | **–** | **–** | **342,937** | **–** | **342,937** | **338,675** |
| | **73,855** | **58,890** | **351,050** | **–** | **483,795** | **478,732** |
| **2011** | | | | | | |
| Trade payables | 13,561 | 4,163 | – | – | 17,724 | 17,724 |
| Other payables | 14,882 | – | – | – | 14,882 | 14,882 |
| Borrowings | – | – | 80,819 | – | 80,819 | 77,984 |
| Convertible bonds | – | – | – | 342,937 | 342,937 | 231,410 |
| | 28,443 | 4,163 | 80,819 | 342,937 | 456,362 | 342,000 |
| **The Company** | | | | | | |
| **2012** | | | | | | |
| Other payables | **7,011** | **–** | **–** | **–** | **7,011** | **7,011** |
| Amounts due to subsidiaries | **2,752** | **–** | **–** | **–** | **2,752** | **2,752** |
| Convertible bonds | **–** | **–** | **342,937** | **–** | **342,937** | **338,675** |
| Financial guarantee contracts | **102,816** | **–** | **–** | **–** | **102,816** | **–** |
| | **112,579** | **–** | **342,937** | **–** | **455,516** | **348,438** |
| **2011** | | | | | | |
| Other payables | 5,325 | – | – | – | 5,325 | 5,325 |
| Amounts due to subsidiaries | 1,682 | – | – | – | 1,682 | 1,682 |
| Convertible bonds | – | – | – | 342,937 | 342,937 | 231,410 |
| Financial guarantee contracts | 103,856 | – | – | – | 103,856 | – |
| | 110,863 | – | – | 342,937 | 453,800 | 238,417 |

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

***Liquidity risk*** *(continued)*

The weighted average interest rate is 6% to 6.56% (2011: 5.81% to 6.56%) per annum.

The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

**Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- 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; and

- the fair value of the derivative financial instruments (conversion and redemption option) was determined based on a valuation carried out by an independent firm of valuers using the Binomial Option Pricing Model.

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

## 34. 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).

## 34. FINANCIAL INSTRUMENTS *(continued)*

**Fair value** *(continued)*

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

| | The Group and The Company | | | |
|---|---|---|---|---|
| | **(Level 1)** | **(Level 2)** | **(Level 3)** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2012** | | | | |
| Financial liabilities | | | | |
| Derivative financial instruments (note 29) | — | — | — | — |
| **2011** | | | | |
| Financial liabilities | | | | |
| Derivative financial instruments (note 29) | — | — | 109,087 | 109,087 |

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2012 and 2011. During the year ended 31 December 2012, the fair value of derivative financial instruments of RMB109,087,000 as at 31 December 2011 has been derecognised upon the redemption of the convertible bonds, details of which are set out in note 29.

## 35. COMMITMENTS

### (a) Operating lease commitments — the Group as lessee

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

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within one year | **—** | 8,800 |

### (b) Capital commitments

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Capital expenditure in respect of acquisition of property, plant and equipment — contracted for but not provided in the consolidated financial statements | **—** | 3,927 |

At the end of the reporting period, the Company did not have commitments for operating lease and capital expenditure (2011: Nil).

## 36. SHARE-BASED PAYMENT TRANSACTIONS

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

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

There are no shares granted or awarded under the Performance Share Scheme during the years ended 31 December 2011 and 2012.

## 37. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Rental expense paid to | | |
| — Shijiazhuang Maidisen Animal Healthcare Co. Ltd. | **4,100** | 4,100 |
| — Beijing Haichenruian Technology Co. Ltd. | **4,500** | 4,000 |
| — Shenzhou Pagina Animal Drug technologies Consultancy and Service Co. Ltd. | **700** | 700 |
| | **9,300** | 8,800 |
| Sale of finished goods to related parties | **2,922** | — |

Related parties comprise companies that are controlled by a director of the Company.

As at 31 December 2012, outstanding balances arising from sale of finished goods to related parties are unsecured and receivable within 12 months from the end of the reporting period and are disclosed in note 23.

## 37. RELATED PARTY TRANSACTIONS *(continued)*

**Compensation of key management personnel**

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

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Directors' fees | **1,303** | 1,313 |
| Salaries, bonuses and other short-term benefits | **7,061** | 6,639 |
| Contributions to defined contributions plans | **222** | 162 |
| | **8,586** | 8,114 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 38. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2012, included in the total additions of property, plant and equipment amounting to RMB2,044,000 (2011: Nil) is deposit paid for acquisition of property, plant and equipment in prior year and recognised as additions to property, plant and equipment during the year ended 31 December 2012, and an amount of RMB5,608,000 (2011: Nil) being unpaid costs of acquisition of property, plant and equipment included in "other payables and accrued charges", which are non-cash transactions.

Included in the total additions of intangible assets amounting to RMB6,000,000 (2011: Nil) is unpaid costs of acquisition of seed strains included in "other payables and accrued charges" account as at 31 December 2012.

## 39. RECLASSIFICATION OF COMPARATIVE FIGURES

To conform with the current year financial statement presentation, certain financial line items in the consolidated financial statements for the year ended 31 December 2011 have been reclassified:

| Financial statements line item | As originally stated RMB'000 | Reclassification RMB'000 | As restated RMB'000 |
|---|---|---|---|
| **Consolidated statement of comprehensive income** | | | |
| Cost of sales | 218,106 | 62,933 | 281,039 |
| Administrative expenses | 115,850 | (71,481) | 44,369 |
| Research and development expenses | – | 8,818 | 8,818 |
| Finance costs | 25,896 | (270) | 25,626 |
| **Consolidated statement of cash flow** | | | |
| Investing activities – contribution from non-controlling shareholders of a subsidiary | 38,005 | (38,005) | – |
| Financing activities – contribution from non-controlling shareholders of a subsidiary | – | 38,005 | 38,005 |
| Financial activities – placement of pledged deposits | (21,998) | 21,998 | – |
| Investing activities – placement of pledged deposits | – | (25,998) | (25,998) |
| Investing activities – proceeds from release of pledged deposits | – | 4,000 | 4,000 |
| Operating activities – interest received | 2,448 | (137) | 2,311 |
| Investing activities – interest received from deposits pledged | – | 137 | 137 |
| Operating activities – interest paid | (2,864) | 2,864 | – |
| Financing activities – interest paid | – | (2,864) | (2,864) |
| **Statement of financial position of the Company** | | | |
| Non-current assets – Amounts due from a subsidiary | 477,039 | (175,183) | 301,856 |
| Current assets – Amounts due from a subsidiary | – | 175,183 | 175,183 |

## 39. RECLASSIFICATION OF COMPARATIVE FIGURES *(continued)*

The above reclassifications have no impact on the consolidated statement of financial position of the Group as at the beginning of the preceding period (third statement of financial position), and have no material impact on the third statement of financial position of the Company, and accordingly, the consolidated statements of financial position as at the beginning of the earliest comparative period was not presented.

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2012 and 2011 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ registration and operation | Issued and fully paid share capital/ registered capital | Proportion ownership interest held by the Company 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|
| Beijing Healthcare Technology Co., Ltd[1] | PRC | US$10,000,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder and pre-mix), sale of self-made products, provision of technical services and consultation relating to animal drugs, and transfer of self-developed technique |
| Beijing Jianxiang Hemu[2] | PRC | RMB3,000,000 | 100 | 100 | Research and development |
| Evanton | Singapore | S$800,001 | 100 | 100 | Investment holding |
| Hebei Biwei Science Technology Co., Ltd[1] | PRC | US$3,060,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder and pre- mixed), and sale of self-made products |
| Hebei Qingshanhong Animal Medicine Company Limited[3] | PRC | RMB34,400,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products |

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ registration and operation | Issued and fully paid share capital/ registered capital | Proportion ownership interest held by the Company 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|
| Hebei Geruisi Animal Medicine Company Limited[3] | PRC | RMB500,000 | 100 | 100 | Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals |
| Hebei Runshengzhongfu Animal Medicine Company Limited[3] | PRC | RMB36,000,000 | 100 | 100 | Research, development and manufacture of animals drugs powder, pre-mixed and injection, and sale of self-made products |
| Bigvet Biotech[2] | PRC | RMB125,000,000 | 60 | 60 | Research, development and manufacture of animal drugs |
| Longyao Qingshanhong Animal Medicine Company Limited[2] | PRC | RMB3,000,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder and pre-mixed), and sale of self-made products |
| Shanxi Longkeer[2] | PRC | RMB42,600,000 | 72.16 | 72.16 | Research, development and manufacture of animal biological drugs and vaccines |

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ registration and operation | Issued and fully paid share capital/ registered capital | Proportion ownership interest held by the Company 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|
| Shenzhou Pagina-kang[1] | PRC | US$8,000,000 | 100 | 100 | Research, development and manufacture and sale of animal drugs (oral solution and powder), and provision of technical services and consultation relating to animal drugs |
| Shijiazhuang Aoxin Animal Medicine Company Limited[3] | PRC | RMB500,000 | 100 | 100 | Research, development and manufacture of feed, sale of animal drugs (oral solution of self-made products), and wholesale and commission agency of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro- ecological preparation for animals |
| Shijiazhuang Keruida Animal Medicine Company Limited[3] | PRC | RMB500,000 | 100 | 100 | Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals |

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ registration and operation | Issued and fully paid share capital/ registered capital | Proportion ownership interest held by the Company 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|
| Shijiazhuang Lixinkang Animal Medicine Company Limited[3] | PRC | RMB500,000 | 100 | 100 | Research, development and manufacture of feed, sale of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals |
| Shijiazhuang Greenxinkang Animal Medicine Company Limited[3] | PRC | RMB500,000 | 100 | 100 | Research, development and manufacture of animal feed, sales of self-made products, and wholesale and commission agency (excluding auction) of proprietary Chinese traditional medicine, compound chemical drugs, antibiotics, external used insecticide, disinfector and micro-ecological preparation for animals |
| Shijiazhuang Maidisenda[3] | PRC | RMB34,400,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder and granules), and sale of self-made products |

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ registration and operation | Issued and fully paid share capital/ registered capital | Proportion ownership interest held by the Company 2012 % | 2011 % | Principal activities |
|---|---|---|---|---|---|
| Shijiazhuang Sikede Animal Medicine Company Limited[2] | PRC | RMB34,400,000 | 100 | 100 | Research, development and manufacture of animal drugs (powder for injection), and sale of self-made products |

All of the above subsidiaries, except for Evanton are indirectly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the year.

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

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

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

# Statistics of Shareholdings

## as at 11 March 2013

| Name of Substantial Shareholder | Shareholdings registered in the name of substantial shareholder | Shareholdings held by the substantial shareholders in the name of nominees | Shareholdings in which the substantial shareholders are deemed to be interested | Total | Percentage of issued shares |
|---|---|---|---|---|---|
| Li Chunhua (1) | 15,913,906 | 832,860,677 | – | 848,774,583 | 53.34 |
| Wang Yangang (2) | – | – | 848,774,583 | 848,774,583 | 53.34 |

Notes:

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

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

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

## VOTING RIGHTS

The Bye-Laws provide for:

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

### Shareholdings Held in Hands of Public

Based on information available to the Company as at 11 March 2013, approximately 46.60% of the total number of issued shares (excluding treasury shares) in the capital of the Company is held in the hands of the public. Rule 723 of the Listing Manual issued by SGX-ST has therefore been complied with.

## ANALYSIS OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1–999 | 197 | 8.34 | 97,475 | 0.01 |
| 1,000–10,000 | 600 | 25.40 | 4,461,351 | 0.28 |
| 10,001–1,000,000 | 1,515 | 64.14 | 128,091,712 | 8.05 |
| 1,000,001 and above | 50 | 2.12 | 1,458,740,087 | 91.66 |
| | 2,362 | 100.00 | 1,591,390,625 | 100.00 |

# Statistics of Shareholdings

as at 11 March 2013

## TOP 20 SHAREHOLDERS

| No. | Name of Shareholder | No. of Shares | % |
|---|---|---|---|
| 1 | HKSCC Nominees Limited | 909,933,677 | 57.18 |
| 2 | HSBC (Singapore) Nominees Pte Ltd | 101,983,748 | 6.41 |
| 3 | Raffles Nominees (Pte) Ltd | 72,148,000 | 4.53 |
| 4 | Morgan Stanley Asia (S) Securities Pte Ltd | 37,370,035 | 2.35 |
| 5 | DBSN Services Pte Ltd | 30,321,312 | 1.91 |
| 6 | DBS Nominees Pte Ltd | 27,590,488 | 1.73 |
| 7 | Citibank Nominee Singapore Pte Ltd | 25,733,000 | 1.62 |
| 8 | Merrill Lynch (S) Pte Ltd | 21,200,000 | 1.33 |
| 9 | Phillip Securities Pte Ltd | 19,568,000 | 1.23 |
| 10 | DBS Vickers Securities (S) Pte Ltd | 18,135,500 | 1.14 |
| 11 | Bank of Singapore Nominees Pte Ltd | 17,790,377 | 1.12 |
| 12 | Li Chunhua | 15,913,906 | 1.00 |
| 13 | UOB Kay Hian Pte Ltd | 15,647,000 | 0.98 |
| 14 | Goh Bee Lan | 15,000,000 | 0.94 |
| 15 | Lim Oon Hock | 13,894,000 | 0.87 |
| 16 | OCBC Securities Private Ltd | 10,801,000 | 0.68 |
| 17 | Wang Yongwei | 8,813,000 | 0.55 |
| 18 | Asdew Acquisitions Pte Ltd | 8,191,000 | 0.52 |
| 19 | DB Nominees (S) Pte Ltd | 7,268,450 | 0.46 |
| 20 | Maybank Kim Eng Securities Pte Ltd | 7,165,469 | 0.45 |
| | | 1,384,467,962 | 87.00 |

# Five Year Financial Summary

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

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (restated) | (restated) | (restated) | (restated) |
| **Results** | | | | | |
| Revenue | **862,729** | 768,124 | 590,513 | 438,289 | 385,090 |
| Gross profit | **552,927** | 487,085 | 432,049 | 329,337 | 284,987 |
| Profit before tax | **180,113** | 302,118 | 193,805 | 188,563 | 170,605 |
| Profit and total comprehensive income for the year attributable to: | | | | | |
| Owners of the Company | **105,929** | 223,095 | 119,668 | 157,895 | 138,288 |
| Non-controlling interests | **22,066** | 5,809 | 10,008 | 5,931 | 4,474 |
| | **127,995** | 228,904 | 129,676 | 163,826 | 142,762 |
| **Assets and Liabilities** | | | | | |
| Total assets | **2,027,976** | 1,832,507 | 1,590,917 | 825,417 | 523,357 |
| Total liabilities | **646,606** | 531,390 | 521,698 | 53,731 | 71,148 |
| Equity attributable to owners of the Company | **1,138,855** | 1,080,668 | 892,584 | 750,564 | 437,018 |

CHINA ANIMAL HEALTHCARE

CHINA ANIMAL HEALTHCARE LTD.

(Company Registration No.: 28986)

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