2012 Annual Report

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Stock Code:867)

Contents

Corporate Information

Board of Directors

Executive Directors
Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Mr. HUI Ki Fat
Ms. SA Manlin (appointed on 11 December 2012)

Non-Executive Director
Ms. HOU Xiaoxuan (resigned on 11 December 2012)

Independent Non-Executive Directors
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
Mr. WU Chi Keung

Company Secretary

Mr. HUI Vincent Wing Sin, *HKICPA*

Authorized Representatives

Mr. HUI Vincent Wing Sin
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng

Remuneration Committee Members

Dr. PENG Huaizheng (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Dr. PENG Huaizheng
Mr. WU Chi Keung

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Merchants Bank, Shenzhen Branch
Industrial and Commercial Bank of China, ShenZhen Branch
Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Co., Ltd.,Hong Kong Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters

6/F and 8/F, Building A
Tongfang Information Harbour
No.11 Langshan Road
Shenzhen Hi-tech Industrial Park North
Nanshan District
Shenzhen 518057
PRC

Principal Place of Business in Hong Kong

Unit 2106, 21/F
Island Place Tower
510 King's Road
North Point
Hong Kong

Branch Share Registrar in Hong Kong

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

Stock Code

867

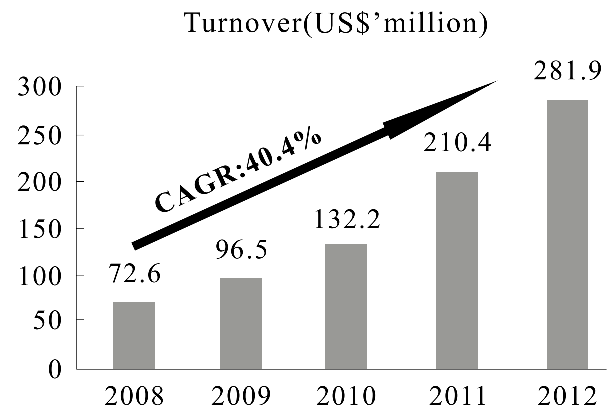
Company's Website

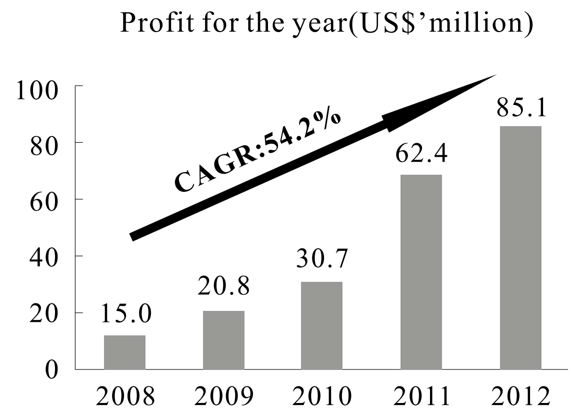
www.cms.net.cn

Financial Highlights

- Turnover up 34.0% to US$281.9 million (2011: US$210.4 million)
- Profit for the year up 36.5% to US$85.1 million (2011: US$62.4 million)
- Basic earnings per share up 34.2% to US3.522 cents (2011: US2.624 cents)
- As at 31 December 2012, the Group's bank balances and cash amounted to US$107.2 million while readily realizable bank acceptance bills amounted to US$28.7 million
- Proposed final dividend of US0.774 cent per share, bringing the total dividend for the year ended 31 December 2012 to US1.419 cent per share, representing an increase of 47.8% from last year (2011: final dividend of US0.533 cent[1] and total dividend of US0.960 cent[2] per share respectively)

Turnover and profit of the Group for the latest five years are set out below:





Consolidated Balance Sheet Highlights

	As at 31 December				
	2008	2009	2010	2011	**2012**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	70,494	90,777	223,207	474,167	**552,767**
Total liabilities	17,773	36,843	23,218	82,994	**101,793**
Net assets	52,721	53,934	199,989	391,173	**450,974**

1 Final dividend of US0.533 cent per share for the year ended 31 December 2011 was adjusted to reflect the bonus issue effective in April 2012 as approved by Shareholders at the Annual General Meeting held on 25 April 2012.

2 Total dividend of US0.960 cent per share for the year ended 31 December 2011 was adjusted to reflect the bonus issue effective in September 2011 as approved by Shareholders at the Extraordinary General Meeting held on 14 September 2011, and the bonus issue effective in April 2012 as approved by Shareholders at the Annual General Meeting held on 25 April 2012, respectively.

Chairman's Statement

Dear Shareholders,

I would like to sincerely thank all of our shareholders for their unwavering support of China Medical System Holdings Limited (the "Company" or "CMS"). On behalf of the Board of Directors, I would like to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 (the "Reporting Period").

Business Overview

The Chinese pharmaceutical market remained complex and volatile in 2012. During the first half of 2012, the Chinese pharmaceutical market was consistently suppressed due to sluggish global economic growth and the Chinese government regulatory policies on the pharmaceutical industry. However, as the global economy starting to rebound since the second half of 2012, the Chinese government continued to increase investment in the Chinese pharmaceutical market and released industry support policies, leading the Chinese pharmaceutical market to pick up gradually. Despite the volatile market conditions, with the in-depth understanding of the Chinese pharmaceutical market, firm implementation of the two core development strategies – the continuous introduction and development of products and expansion of promotion and sales network, as well as the unique product portfolio and excellent market execution abilities, the Group still achieved satisfactory growth. During the Reporting Period, the Group recorded turnover of US$281.9 million (2011: US$210.4 million), representing an increase of 34.0% over the same period of last year, while profit for the period reached US$85.1million (2011: US$62.4 million), up 36.5% from the corresponding year of last year. Basic earnings per share was US3.522 cents (2011: US2.624 cents), representing an increase of 34.2% over the same period of last year.

The Group achieved stable growth mainly due to the continuous establishment and effective implementation of its market and product development strategies in line with the development of the Chinese pharmaceutical market during the Reporting Period. The continuing expansion of the Group's marketing and promotion network, the strengthened network penetration and hospital coverage, and the refinement of market management for the Agency Promotion Model and products, improved the growth in sales volume of the Group's major products.

Product Introduction and Development

During the Reporting Period, the Group continued its efforts in product branding and expert network expansion for the products under the Direct Academic Promotion Network (the "Direct Network"), by organizing over 1,000 academic activities at various levels to explore new applications for the products together with doctors who make prescriptions and by constantly enhancing the penetration of the products in the traditional departments at hospitals, as well as improving development of hospital coverage to expand the coverage of the products in the market. For products under the Agency Promotion Network (the "Agency Network"), the Group continued to enhance and refine the management to agents, paid close attention to tendering and pricing of its products, and fully utilized the business advantages of the agents in various regions. Meanwhile, for products with certain professional academic requirements, the Group also combined its academic promotion experiences to enhance academic supports for the Agency Network.

While maintaining steady revenue growth from its flagship products and potential products, the Group also continued to screen and to introduce suitable products. In product introduction, the Group combined the characteristics of both Direct and Agency Networks to select products with academic differentiations as well as competitive market edges. In terms of the methods used for product introduction, the Group has enhanced the stability and controllability requirements of products at the product introduction stage. Aside from employing the original product agency method to in-license products, the Group also enhanced its bargaining power over controlling rights of the products. Regardless of the type of cooperation, the Group aims at long-term cooperation with manufacturers to ensure stable and long-term development of products in the Chinese market. During the Reporting Period, the Group successfully signed five new products. In August 2012, the Group signed an agreement with Beijing Yadong Biopharmaceutical Co., Ltd to purchase the exclusive sales rights of its three Traditional Chinese Medicine ("TCM") - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang - in China for 20 years. These three products will be sold exclusively in the Chinese market through the Group's Agency Network, which is the second batch of products introduced with the controlling product rights after XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate) of the Group. In December 2012, the Group successfully signed an agreement with Vifor Pharma for the exclusive sales and distribution of Maltofer® and Uro-Vaxom® in China. Although this is a product agency agreement, the agency period (which starts upon the dates on which the products are granted import drug license registration in China) is for 10 years and shall be automatically extended for a further 5 years if the appointed sales targets are achieved. This long-term agreement is a new attempt for the Group to in-license products by using of the product agency method, and will also be one of the key considerations of the Group to introduce future products under the product agency method. Since the above two products are strong in their academic nature, they will be sold through the Group's Direct Network. In addition to Maltofer® and Uro-Vaxom®, which require import drug license registration in China, the Group has three other products undergoing import drug license registration.

Moreover, the Group has a National Class One New Drug with independent intellectual property rights - Tyroseuleutide (CMS024), a polypeptide drug used to treat primary liver cancer. Phase III clinical study for this drug, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroseuleutide for Injection in the Patients with Hepatocellular Carcinoma", is progressing smoothly at over 20 hospitals in China. As at the 31 December 2012, the Group has already received 381 informed consent forms ("ICF") and successfully enrolled 176 subjects, exceeding half of the planned 300 subjects. Meanwhile, the construction of the new production plant for Tyroseuleutide, located in the new region of Pingshan, Shenzhen, China, is also in progress, and the principal part of the construction project for the manufacturing facility commenced during the Reporting Period.

Network Development

During the Reporting Period, the Group constantly strived to develop its marketing and promotion network. The enhancement of hospital penetration and market coverage were still the key focuses of the Group's development. Aside from the existing hospitals, the Group also continued to facilitate the expansion of its marketing and promotion network to the rural market to actively generate prescriptions at Tier-2 hospitals and lower tier hospitals during the Reporting Period.

Although the Group has relatively broad coverage in its Direct Network, there is still much room for development, especially in the rural market. The Group will seize opportunities from the Chinese government supports for the rural pharmaceutical market (including county and prefecture-level markets) and actively expand the Group's Direct Network to the rural pharmaceutical market to expand effective coverage in these remote regional markets. As such, the Group has facilitated the expansion of its staff in the Direct Network. Meanwhile, in order to ensure effective market segmentation and network expansion to the rural market, the Group adjusted the organization structure of the Direct Network during the Reporting Period. By designating several sales regions within the national sales market and refining the original sales regions to build a well defined, more hierarchical and clearer regional sales management structure, it is aimed at complementing the regions' system building and policy requirements, enhancing its business execution and effective policy implementation.

For the Agency Network, the Group continued to enhance the business control and refinement of operations of the network. Based on the existing Agency Promotion Model, the Group gradually implemented an agency selection system with the purpose of promoting hospital coverage, optimising the quality of agents while fully utilizing the agents' superior resources at certain specific hospitals to sell products. As for the management and control of the Agency Network, the Group further refined the information management system according to actual business requirements of the Agency Network and gradually completed data management of the Agency Network and its products to increase the transparency and the management control to establish a foundation to achieve the linking of the two marketing and promotion networks on the management platform, which is the integration of management between the Group's two marketing and promotion networks. Moreover, for the products under the Agency Network with certain professional academic requirements (like XiDaKang), the Group combined its experiences in direct academic promotion to conduct academic activities (e.g. clinical studies at hospitals), and gradually enhanced the professional academic position of these products in the Agency Network, as well as guiding the academic promotion work to agents.

Cash Dividend

The Company has paid an interim dividend of US 0.645 cent (equivalent to HK$0.05) per ordinary share of the Company (the "Share") for the six months ended 30 June 2012. The Board is delighted to recommend a final dividend of US 0.774 cent (equivalent to HK$0.06) per Share for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 May 2013 (the "Record Date"). The register of members of the Company will be closed from Tuesday, 30 April 2013 to Thursday, 2 May 2013 (both days inclusive). Payment of such final dividend in Hong Kong dollars is expected to be made to the shareholders on Friday, 10 May 2013 after the shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Wednesday, 24 April 2013.

Outlook and Future Development

We believe that premium products which are suitable for market development is the soul of the Group's development. By establishing a rich and balanced product portfolio with certain competitive advantages is one of the crucial foundations for the Group to achieve sustainable and stable development in the Chinese market. Meanwhile, a marketing and promotion network, characterized by wide coverage, strong professional abilities, broad-based cooperation, strict management and stability, is the basis of the Group's development. The effective integration and balanced development of products and network form the Group's core competitiveness to achieve sustainable growth.

Going forward, the Group will continue to focus on marketing and promoting premium prescription drugs in the Chinese market, creating value for doctors, patients and professional pharmaceutical companies from all over the world by means of professional promotion. The Group will also continue to firmly implement its two core development strategies - the introduction and development of products as well as the expansion of the marketing and promotion network.

For the existing products under the Group's Direct Network, the Group will cover more hospitals and increase the usage of the products in different departments, by considering the different stages of development and market characteristics of each product so as to further explore the products' market potential. At the same time, the Group will continue to examine the development of products in the rural market. For the products under Agency Network which need degree of academic promotion to support better development, such as XiDaKang, the Group will constantly explore and complete a new Agency Promotion Model to combine the professional academic promotion and investment agency into one under the existing Agency Promotion Model. This model will be driven by academic and market demand. Through better academic positioning and market segmentation of the products to explore suitable agents, and by strengthening requirements for academic training and promotion behaviors of the agents, to help agents enhance the implementation of academic promotions, as well as to establish a favorable academic environment for better product development together with agents. Meanwhile, along with the continued expansion and the refinement of the management of the Group's two marketing and promotion networks, the Group will take advantage of the two marketing and promotion networks to further realize the complementary advantages of the promotion and sales of certain products.

In addition to developing markets for existing products, the Group will continue to boost efforts to introduce new products and to select suitable and premium products based on the different characteristics of the two marketing and promotion networks. In new product introduction, the Group will continuously strengthen its efforts to acquire more stabilized products rights. Aside from paying upfront payment or controlling equity shares, the Group will also actively discuss other long-term cooperation models with suppliers, and to explore win-win situation. Meanwhile, in order to strengthen the stability of the product rights, the Group has started to explore the possibility of controlling products' upstream in order to acquire more stabilized product rights and greater benefits.

For network development, the Group will continue to commit to the in-depth development of its marketing and promotion network to speed up expansion in the rural market. The Group will also continue to commit more efforts to recruit sales staff so as to lay a solid network foundation for the penetration in the rural market and new product introduction forthcoming. At the same time, the Group will also strengthen the professional training for sales staff, and improve incentive mechanisms and career plans so as to provide broader prospects for their career development within the Group.

To enlighten the responsibility to shareholders, the Group will continue to strengthen and improve its internal management and control, as well as to enhance the supervision of product quality, to better serve the community.

In future, the Board will continue to pay close attention to changes in the Chinese pharmaceutical market, to firmly grasp and seize opportunities from the development in the Chinese pharmaceutical market, and to combine the Group's advantages in development to achieve better performance in the Chinese market and to create greater value for the Group's shareholders and the community.

Chairman
Lam Kong
Shenzhen China
19 March 2013

Management Discussion and Analysis

Business Review

During the Reporting Period, the Group recorded turnover of US$281.9 million (2011: US$210.4 million), representing an increase of 34.0% over the same period of last year, while profit for the period reached US$85.1million (2011: US$62.4 million), up 36.5% from the corresponding year of last year. Basic earnings per share was US3.522 cents (2011: US2.624 cents), representing an increase of 34.2% over the same period of last year.

During the Reporting Period, the Group commissioned to increase investment and promotional efforts for its existing products, and the effective implementation strategies of market exploration and product development, continuous expansion of its marketing and promotion networks, rural market, and hospital coverage as well as refining marketing management, which effectively advanced the growth in sales volume of the Group's main products, while the stringent cost control also supported the sustained and steady growth of the Group's performance.

Product Development

As at 2012, the flagship products under the Direct Network of the Group - Deanxit and Ursofalk, have already been sold in the China market for over 14 years. During the Reporting Period, the two products maintained a relatively high sales growth, which is mainly attributable to continuous brand building, patient education, deep exploration of the existing market's potential, development of the rural market as well as exploration of the products' new applications. Four potential products under the Direct Network - XinHuoSu, Augentropfen Stulln Mono Eye-drops, Salofalk and Bioflor - achieved fast growth during the Reporting Period, largely due to the Group's continuous market investment, various promotion activities including doctor education etc. which led to the increase of hospital coverage and the expansion of application areas of the products. The major products under the Agency Network of the Group - ShaDuoLiKa and YiNuoShu, won tenders by joining the biding separately from others in terms of the price difference or premium quality in some markets, and also successfully won tenders in certain markets which have already implemented the Essential Drug List during the Reporting Period, which effectively contributed to their sales. In addition, the Group continued to actively select suitable agents and advanced the fundamental activities of tendering and listing in the Insurance Reimbursement Drug Catalogue in each province for the potential products under the Agency Network, including XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate) and Yin Lian Qing Gan Ke Li etc. Meanwhile, for the products under the Agency Network which require certain academic promotion supports, the Group is laying a solid foundation for product development in the future by capitalizing on its strength in professional academic promotion to establish an expert network and to launch several clinical studies at some hospitals during the Reporting Period.

Apart from products already on the market, the Group has five products in the pipeline which require import drug license registration in China, these will be the product reserve for sustainable growth in the future, and with two of them imported from Vifor Pharma in Switzerland since December 2012. These five products will make contributions to the Group's revenue after receiving the market approval.

During the Reporting Period, the phase III clinical trial of Tyroseuleutide (CMS024), a National Class One New Drug with independent intellectual property rights, a polypeptide drug used to treat primary liver cancer, has progressed smoothly. Construction of its production plant is on schedule whereby the preliminary investigation, design and construction of pile foundation engineering and other related works for the early phases of the project were completed. Construction of the principal part of the project has also commenced.

Products of the Direct Network:

	Main Products	As a Percentage of the Group's Revenue (%)
Flagship Products	Deanxit (Flupentixol and Melitracen)	31.2
	Ursofalk (Ursodeoxycholic Acid)	21.6
Products with Market Potential	XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")	9.5
	Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-Drops)	4.7
	Salofalk (Mesalazine)	4.1
	Bioflor (Saccharomyces Boulardii)	3.3

(i) Flagship Products

Deanxit (Flupentixol and Melitracen)

Deanxit is manufactured by H.Lundbeck A/S of Denmark and is used for the treatment of mild to moderate depression and anxiety. During the Reporting Period, Deanxit recorded sales of US$88.1 million, an increase of 31.4% when compared to last year, accounting for 31.2% of the Group's turnover. During the Reporting Period, the Group took full advantage of the opportunities from the inclusion of Deanxit in the National Insurance Reimbursement Drug Catalogue and thoroughly explored the market potential in areas which have already implemented the catalogue, and was committed to promoting and penetrating the product in different departments. Aside from continuing to expand Deanxit's market potential through diverse promotion approaches in the traditional departments of neurology and psychiatry, the Group also strengthened the promotion of this drug in gastroenterology and actively explored the usage of Deanxit in other departments. In addition, the Group also continued to promote doctor re-education and patient education, as well as strengthened brand building and expert network forming of Deanxit. As at 31 December 2012, sales of Deanxit covered over 8,400 hospitals throughout China.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. During the Reporting Period, Ursofalk recorded sales of US$60.8 million, an increase of 31.4% when compared to last year, accounting for 21.6% of the Group's turnover. During the Reporting Period, the Group continued to consolidate the core markets of the product by further intensifying the sales efforts of Ursofalk in the existing departments, and actively explored new promotion methods and new growth drivers. Further to maintaining Ursofalk's sales in the existing departments, the Group also initiated the promotion and the usage of Ursofalk in fatty liver, gastroenterology and pediatrics as well as to enhance the development and penetration of this product in hospitals in the rural area. The Group launched several high-end academic forums to constantly elevate the high-end academic image of the product so as to enhance loyalty among doctors in the prescription of Ursofalk. As at 31 December 2012, sales of Ursofalk covered over 4,800 hospitals throughout China.

(ii) Products with Market Potential

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")

XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co. Ltd, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of US$26.8 million, an increase of 46.1% when compared with last year, accounting for 9.5% of the Group's turnover. During the Reporting Period, besides strengthening the promotion of XinHuoSu in cardiology, the Group continued to improve the usage of XinHuoSu in emergency department and cardiac surgery, and was committed to expanding hospital coverage and establishing an expert network while increasing the number of doctors prescribing the drug. As at 31 December 2012, sales of XinHuoSu covered over 1,000 hospitals throughout China.

Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$13.3 million, an increase of 35.5% when compared to last year, accounting for 4.7% of the Group's turnover. During the Reporting Period, the Group continued to strengthen brand building of Augentropfen Stulln Mono Eye-drops, consolidate its expert network, increase prescription hospitals, explore the usage of the product in different areas, as well as enhance patient education. Aside from continuing to promote the usage of Augentropfen Stulln Mono Eye-drops as treatment to age-related macula degeneration, the Group also stepped up its promotional efforts in the usage of the product as the treatment to ocular asthenopia, and further explored the promotion of this drug as the treatment to xerophthalmia. As at 31 December 2012, sales of Augentropfen Stulln Mono Eye-drops covered over 3,600 hospitals throughout China.

In 2012, despite the supply from the manufacturer failing to meet the increase in market demands, which affected the Group's expansion of this product in the market to a certain extent, the Group actively cooperated with the manufacturer to identify effective measures to improve the production capacity of the product.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is mainly used to treat Ulcerative Colitis and Crohn's disease, it consists of three dosage forms namely: coated tablets, suppositories and enemas. During the Reporting Period, Salofalk recorded sales of US$11.4 million, an increase of 61.5% when compared to last year, accounting for 4.1% of the Group's turnover. The Group continued to improve and consolidate the usage of Salofalk as the treatment to mild to moderate Inflammatory Bowel Disease ("IBD"), and was active in facilitating the re-education of the product as a treatment to IBD, and continually enhanced doctors' understanding of Salofalk and the diagnosis of IBD, as well as enhancing the promotion of topical preparation during the Reporting Period. Since there are similar products in the market, the Group consolidated the position of Salofalk at core hospitals various academic activities and expert network expansion during the Reporting Period. As at 31 December 2012, sales of Salofalk covered over 1,400 hospitals throughout China.

In May 2012, the National Development and Reform Commission ("NDRC") regulated retail price of a number of gastroenterological drugs. Although the retail price of Salofalk decreased slightly under the new price standard of NDRC, the adjustment had little impact on the Group's profit.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a biological agent used to treat diarrhea for both adult and children, and diarrhea symptoms caused by the disturbance of intestinal flora. During the Reporting Period, Bioflor recorded sales of US$9.2 million, an increase of 89.5% when compared to last year, accounting for 3.3% of the Group's turnover. During the Reporting Period, the Group intensified promotional efforts of the product in pediatrics and actively expanded its usage in adult gastroenterology. To collect prescription data and to cultivate doctors' habit of prescribing the drug, the Group was proactive in cooperating with the Pediatrics Branch of the Chinese Medical Association to launch clinical studies for Bioflor in pediatrics and adult gastroenterology. Furthermore, the Group also continued to expand hospital coverage and expert network of the product, as well as further strengthening the product's brand influence through various academic activities. As at 31 December 2012, sales of Bioflor covered over 1,100 hospitals throughout China.

(iii) Other Products

Apart from the products mentioned above, the Group's Direct Network also promoted and sold other products in the China market, including Cystistat (Sterile Hyaluronate Solution), GanFuLe and Exacin (Isepamicin Sulfate Injection), these recorded sales of US$1.0 million, US$5.0 million and US$3.7 million, respectively, accounting for 0.4%, 1.8% and 1.3% of the Group's revenue, respectively, during the Reporting Period.

Products of the Agency Network:

	Main Products	As a Percentage of the Group's Revenue (%)
Flagship Products	YiNuoShu (Ambroxol Hydrochloride for Injection)	9.3
	ShaDuoLiKa (YanHuNing Injection)	8.0
Products with Market Potential	XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)	1.2
	Yin Lian Qing Gan Ke Li	0.03

(i) Flagship Products

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, manufactured by TIPR Pharmaceutical Responsible Co., Ltd., is the first generic version of an ambroxol hydrochloride for injection approved in China, and is an expectorant product used for respiratory diseases. During the Reporting Period, YiNuoShu recorded sales of US$26.2 million, accounting for 9.3% of the Group's turnover. During the Reporting Period, by taking the opportunity of successful tenders for listing YiNuoShu on the Essential Drug List in some markets, the Group initially introduced the aerosol treatment approach to these markets, while cooperating with agents to launch marketing activities for promoting aerosol treatment in rural areas so as to expand the product's coverage in the rural market. Moreover, the Group conducted product re-development in the departments which frequently prescribed YiNuoShu, and thus further explored the market potential of YiNuoShu in these departments. The Group established YiNuoShu's advantage and brand image by organising several academic forums for key departments in newly covered Tier-2 hospitals and higher tier hospitals.

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co. Ltd. (the "Manufacturer"), is a common injection of anti-infective TCM used in pediatrics, respiratory and emergency department. During the Reporting Period, Shaduolika recorded sales of US$22.5 million, accounting for 8.0% of the Group's turnover. During the Reporting Period, the Group expanded coverage of ShaDuoLiKa in Tier-2 hospitals and lower tier hospitals, meanwhile, the product was added to the Essential Drug List and New Rural Cooperative Medical System in some areas, which contributed to its sales growth. During the Reporting Period, certain batches of ShaDuoLiKa manifested a few cases of adverse reactions in clinical use while the Manufacturer immediately suspended the production of the product. As the exclusive promoter of ShaDuoLiKa in China, the Group adopted proactive measures and discussed solutions with the Manufacturer. Since only a few markets were affected by the incident and the Manufacturer has resumed production of the product in November 2012, the incident had a very limited impact on the Group's revenue for the year.

(ii) Products with Market Potential

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)

XiDaKang, manufactured by Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd., is a new generation short peptide enteral nutrition drug manufactured by Chinese Biochemical Technique, and sold as an oral solution and granules form. During the Reporting Period, XiDaKang recorded sales of US$3.3 million, accounting for 1.2% of the Group's turnover. The Group capitalized on the opportunities of tendering for XiDaKang in different areas, and constantly advanced the fundamental activities to tender in different provinces and cities, as well as for listing in the Insurance Reimbursement Drug Catalogue at the provincial level during the Reporting Period. At the same time, as the only Oral Protein Hdrolysate enteral nutrition drug approved by the State Food and Drug Administration ("SFDA"), the sales of XiDaKang need to be combined with certain academic promotions to enable doctors to have a better understanding of the product's functions and treatments so as to effectively push the prescription of the product. With the Group's years of experience and capability in professional academic promotion, XiDaKang was re-positioned to improve its academic foundation. The Group launched several clinical trials during the Reporting Period to actively collect evidences of the Evidence-based Medicine during the clinical application of the product. In addition, the Group actively established relationships with clinical nutrition experts and cooperated with Clinical Nutrition Councils at the national and regional levels to enhance the product's brand influence. Aside from the existing agents, the Group was active in identifying agents with academic promotion capabilities for XiDaKang to accelerate its market coverage. The Group conducted over a hundred product training sessions for agents and organized academic conferences and forums with agents to educate doctors about the usage of the product.

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co.,Ltd., is used to treat various acute and chronic hepatitis, alcoholic liver, fatty liver and hypertension. Yin Lian Qing Gan Ke Li is an exclusive TCM with a National New Drug Certificate and was included on the National Reimbursement Class B Drug List. Yin Lian Qing Gan Ke Li is also a product which needs academic promotion support, due to the product already has some Evidence-based Medicine support in the clinical application as the treatment to liver diseases, which has laid a strong foundation for the Group providing academic supports for the sale of the product. The Group introduced the product in August 2012 and successfully completed the market handover with the manufacturer during the Reporting Period. The Group is progressively carrying out tendering activities for the product, deploying an agency selection system with the purpose of promoting hospital coverage of the product.

(iii) Other Products

Apart from the products mentioned above, the Group also has other products promoted by the Agency Network - KunNing Oral Solution, NuoBaiYou, ShenShuiQing, SuPingShu, Irbesartan and Hydrochlorothiazide Dispersible Tablets, Ma Jiang Jiao Nang and Xiang Fu Yi Xue Kou Fu Ye etc. During the Reporting Period, the products listed above collectively accounted for approximately 2.3% of the Group's turnover.

In addition, the Group also produced and sold in-house manufactured products, such as Jin Er Lun, Fu Fang Dan Shen Pian and Niu Huang Jie Du Pian and so on. During the Reporting Period, the Group's in-house manufactured products collectively accounted for approximately 1.3% of the turnover.

(iv) In-house Researched Pharmaceutical Product Development

Tyroseuleutide (CMS024), a polypeptide National Class One New Drug researched and developed by the Group and with independent intellectual property rights, is used to treat primary liver cancer. Since November 2011, the phase III clinical study of Tyroserleutide entitled "A Randomized, Double Blind, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma" was successfully conducted at over 20 leading liver cancer treatment Tier-3 hospitals in China. The primary evaluation criteria of the clinical study is recurrence-free survival ("RFS") of patients with hepatocellular carcinoma after surgical resection. As at 31 December 2012, the Group received 381 informed consent forms ("ICF") and successfully enrolled 176 subjects, exceeding 50% of the planned 300 subjects. Meanwhile, during the Reporting Period, the Group continued to advance the construction of the manufacturing facilities for Tyroserleutide. The manufacturing facility located in the new region of Pingshan, Shenzhen, China, and covering an area of 36,422.4 square meters, will be constructed in accordance with the latest GMP requirements. During the Reporting Period, the Group finished the survey, design and construction of the pile foundation engineering, etc., of the early phase of the project and commenced construction of the principal part of the project.

(v) Products under Registration

The Group currently has five products undergoing import drug license registration, covering gastroenterology, hepatology, cardiovascular, pediatrics, gynecology, and urology. The Group has well established coverage of or has involved in these fields. After the completion of the import drug license registration, the Group can make use of its existing expert networks and physician resources to swiftly commence sales.

Budenofalk, manufactured by Dr. Falk Pharma GmbH in Germany, the third product of the Group introduced from this manufacturer, is mainly used to treat IBD and Crohn's disease. The Group has commenced application for registration of clinical trials for Budenofalk for about two years, and obtained preliminary feedback from SFDA during the Reporting Period. The Group is supplementing relevant materials for clinical registration of the product in accordance with the requirements of SFDA.

L-lysine Aescinat and Thiotriazolin are manufactured by Arterium Corporation in Ukraine. L-lysine Aescinat is mainly used to treat the symptoms of swelling and pain, while Thiotriazolin is mainly used to treat chronic hepatitis arising from various causes, liver failure, ischemic heart disease, and myocardial infarction etc. During the Reporting Period, the Group repeatedly communicated with the manufacturer to discuss import drug license registration matters regarding these two products and is currently preparing application materials in accordance with the requirements of SFDA.

Maltofer® and Uro-Vaxom® are manufactured by Vifor Pharma in Switzerland. Maltofer® is mainly used to treat iron deficiency without anemia ("ID") and iron deficiency anemia ("IDA"); Uro-Vaxom® is mainly used for the treatment and prevention of recurrent urinary tract infections ("UTIs") by stimulating the immune system and the body's natural defense against urinary pathogens. The Group commenced preparations for the import drug license registration of the two products during the Reporting Period.

The five products mentioned above will contribute to the Group's revenue after the completion of import drug license registration of the products, which normally takes two to five years.

Network Expansion

One of the Group's core development strategies is the continuous expansion of its marketing and promotion network. During the Reporting Period, the Group has committed continuous efforts to increase return from existing hospitals in the sales network, as well as to expand the sales network by adding new prescription hospitals below the Tier-3 level as well as hospitals in the rural areas.

For the existing hospitals, the Group increased its investments towards market promotion and education of doctors, boosted the prescription volume of the Group's products, and continued the in-depth exploration of the market potential for the products in these hospitals during the Reporting Period. Meanwhile, the Group also accelerated its pace of penetrating new prescription hospitals. As at 31 December 2012, the Direct Network of the Group covered over 11,000 hospitals and the Agency Network covered over 8,000 hospitals across the country.

Although the Group has relatively broad hospital coverage, its marketing and promotion network remains relatively concentrated in Tier-2 hospitals or higher tier hospitals in the first or the second-tier cities, and there is still much room for the Group to develop in the rural market (including county-level and prefecture-level city markets) as well as the hospitals lower than the Tier-2 level in the central markets. In recent years, the Chinese government successively issued several polices supporting the rural medical market. County-level and prefecture-level markets as well as other rural markets will become the new growth driver of the Chinese pharmaceutical industry. To grasp the development potential of the rural market, the key focus of the Group's marketing and promotion network gradually shifted to expansion in the rural market during the Reporting Period. The Direct Network of the Group has started to recruit local employees with medical backgrounds in parts of the rural market to achieve better penetration into the local markets while promoting product sales. For the Agency Network, the Group refined the requirements for agent recruitment and management of operations, gradually sought and strengthened the cooperation with agents in the smaller market segments, and worked together with them to boost the depth of development in the rural market. As such, the number of staff under the Group's marketing and promotion network has increased. As at 31 December 2012, the number of marketing, promotion and sales professionals of the Group's Direct Network exceeded 1,400 while the number of independent third-party sales representatives or agents of the Agency Network exceeded 1,200.

In addition to the growth in the number of sales representatives to ensure the effective extension to the rural areas, the Group enhanced its construction, management and control of its marketing and promotion network through a variety of ways during the Reporting Period. For the Direct Network, to refine the management of the national sales market, to optimize the market execution of the Direct Network, to improve the effectiveness of policy implementation, and to guarantee the effective penetration of the Direct Network in the rural market, the Group adjusted the organization structure of the Direct Network during the Reporting Period, gradually advancing the structure of each level of the Direct Network. The Group divided the national sales market into several sales regions based on its existing provincial and regional organization structure, then to further divide sales regions into smaller market segments and matched them with the corresponding managers at the same time, as well as further decentralized a part of the managerial functions from the Group's headquarters to sales regions to increase the flexibility of each sales region in policy execution, the accuracy of business operation and the ability to response to the market changes quickly. Though it has decentralized power, the Group's headquarters has also raised the requirements on behavior management and supervising feedback to sales regions so as to enhance the Group's supervision and management over the market. This adjustment has further subdivided the original sales market, making the business and management responsibility of each sales region clearer, while allowing the sales region to have some initiatives on their own business, the effectiveness of the implementation and execution of the Group's policy has also been enhanced. For the Agency Network, the Group also further improved the allocation of regional managers during the Reporting Period, and has started to carry out an agency selection system with the purpose of promoting hospital coverage in certain markets, and continued to enhance the refined management of the Agency Network. Furthermore, the Group also completed the contract management and inventory management processes with its agents by constantly improving its requirements for information management in the Agency Network, thereby improving the normative operations of the Agency Network, and thus further improving the business management capacity of the Agency Network. Meanwhile, backed by experiences and resource advantages in the academic promotion, the Group has conducted academic promotion activities independently or collaboration with agents to further help the Agency Network to complete its professional product agency work.

In addition, the Group also utilized the superior resources of its agents to explore some hospitals not yet covered by the Direct Network. In the meantime, the Group's Direct Network also provided the Agency Network corresponding academic support for the products with certain academic needs. The integration of the two marketing and promotion networks has started and is progressing in the area of business operations.

Outlook and Future Development

Looking ahead, the Group will continue to adhere to its strategic positioning of marketing and promoting premium prescription drugs in the Chinese market and to enforce its two core development strategies - the introduction and promotion of products and expansion of marketing and promotion network to continue to drive the sustainable development of the Group.

For its existing products, the Group will continue to work on penetrating hospitals, enhancing the application and penetration of products in different departments, as well as further exploring the product potential in the rural market. The Group will also strengthen its academic support for the products with academic requirements and features in the Agency Network, and will actively explore a new Agency Promotion Model which combines the professional academic promotion and investment agency into one. At the same time, the Group will continue to strengthen its product and academic training for its agents so as to improve the agents' academic standards and their understanding of the products, and to organise academic events to further raise the academic brand image of its products and strengthen the prescribing doctors' loyalty towards the products.

The Group will continue to select suitable products with market differentiations for the Direct and Agency networks. Control of product rights remains an important issue when introducing new products by the Group. Whether through the signing of exclusive distribution agreements with the suppliers or through payment of certain upfront fees or the purchase of equity in pharmaceutical companies to obtain new products, the Group's negotiations will focus on how to obtain a longer-term and more stable product rights. Meanwhile, for some products, the Group has started to evaluate through the control of the products' upstream enterprises to ensure more stable product rights. The Group acquired 100% equity interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd. together with the creditor's right of RMB30,414,000 for the total consideration of RMB81,100,000 on February 2013. The acquisition was an effective attempt at securing the control rights of products through gaining equity control of upstream enterprises. Through the acquisition, the Group successfully acquired the product rights of GanFuLe, which is favorable for the Group to formulate and implement an overall marketing plan and development strategy for the product. The Group will carry out the repositioning and redevelopment of the product, and reasonably increase the investment of resources and academic to support the rapid growth of the product. In the future, the ways of new product introduction will be more diversified, the product rights will be more secured and the cooperation with suppliers will continue to expand and deepen through continuous exploration and adaptation.

For network expansion, the Group will continue to expand its geographical coverage, enhance output efficiency and accelerate the extension of its marketing and promotion network towards the rural market. The Group will also continue to increase the number of professional sales staff in the Direct Network and will continue to enhance the cultivation and training for sales and promotion professionals, while optimizing the quality of the agents. Moreover, the Group will constantly utilize its advantages in information on business and network management to further enhance the management and supervision of its marketing and promotion network.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements as shown in the Annual Report.

The Group prepared the Annual Report in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover represents the revenue we generated from the sale of in-licensed products and our in-house manufactured pharmaceutical products.

	2012		2011	
	US$'000	Weight	US$'000	Weight
Deanxit	88,079	31.2%	67,046	31.9%
Ursofalk	60,750	21.6%	46,244	22.0%
XinHuoSu	26,820	9.5%	18,352	8.7%
YiNuoShu	26,150	9.3%	16,269	7.7%
ShaDuoLiKa	22,520	8.0%	15,657	7.4%
Augentropfen Stulln Mono eye-drops	13,280	4.7%	9,800	4.7%
Salofalk	11,439	4.1%	7,084	3.4%
Bioflor	9,214	3.3%	4,863	2.3%
GanFuLe	5,018	1.8%	4,874	2.3%
Exacin	3,684	1.3%	10,505	5.0%
XiDaKang	3,326	1.2%	1,142	0.5%
Cystistat	1,041	0.4%	1,106	0.5%
Others	10,545	3.6%	7,451	3.6%
	281,866	100%	210,393	100%

Turnover increased by 34.0% from US$210.4 million for the year ended 31 December 2011 to US$281.9 million for the year ended 31 December 2012, mainly due to an increase in sales volume as selling prices remained relatively stable except for Salofalk, whose price declined slightly to meet the new price set by the National Development and Reform Commission in May 2012.

Gross Profit and Gross Profit Margin

Gross profit increased by 39.2% from US$119.1 million for the year ended 31 December 2011 to US$165.8 million for the year ended 31 December 2012, primarily reflecting growth in turnover. Gross profit margin increased from 56.6% for the year ended 31 December 2011 to 58.8% for the year ended 31 December 2012, mainly due to a change in product mix.

Selling Expenses and Selling Expenses as a Percentage of Turnover

Selling expenses increased by 33.9% from US$43.0 million for the year ended 31 December 2011 to US$57.5 million for the year ended 31 December 2012, primarily reflecting an increase in marketing and promotion expenses arising from the increased sales volume. Simultaneously, there was an increase in salaries and welfare for the Group's marketing and sales staff as a result of the increase in the number of sales staff. Selling expenses as a percentage of turnover maintained unchanged at 20.4% for the year ended 31 December 2012 and 2011 as the Group benefited from firm control over expenses.

Administrative Expenses and Administrative Expenses as a Percentage of Turnover

Administrative expenses increased by 22.6% from US$15.3 million for the year ended 31 December 2011 to US$18.8 million for the year ended 31 December 2012, mainly due to an increase in salaries and welfare for the Group's administrative and management staff. Administrative expenses as a percentage of turnover decreased by 0.6 percentage points from 7.3% for the year ended 31 December 2011 to 6.7% for the year ended 31 December 2012 as the Group benefited from economies of scale.

Other Gains and Losses

Other gains and losses decreased by 13.5% from US$8.1 million for the year ended 31 December 2011 to US$7.0 million for the year ended 31 December 2012, mainly due to exchange gain from the appreciation of Renminbi last year.

Finance Costs

Finance costs increased by 114.3% from US$0.9 million for the year ended 31 December 2011 to US$2.0 million for the year ended 31 December 2012, mainly due to the increase in bank borrowings.

Profit for the Year

Profit for the year increased by 36.5% from US$62.4 million for the year ended 31 December 2011 to US$85.1 million for the year ended 31 December 2012, due to the continuous and stable growth in sales and effective cost control. As a result, net profit margin increased by 0.6 percentage points from 29.6% for the year ended 31 December 2011 to 30.2% for the year ended 31 December 2012.

Inventories

Inventories decreased by 26.4% from US$21.0 million as at 31 December 2011 to US$15.5 million as at 31 December 2012, mainly reflecting strengthened management of inventories. As a result, average inventory turnover days decreased from 74 days for the year ended 31 December 2011 to 57 days for the year ended 31 December 2012.

Trade Receivables

Trade receivables increased by 24.9% from US$40.3 million as at 31 December 2011 to US$50.3 million as at 31 December 2012, primarily reflecting the growth in sales. At the same time, as a result of strengthened management of account receivables, average trade receivables turnover days decreased from 62 days for the year ended 31 December 2011 to 59 days for the year ended 31 December 2012.

Trade Payables

Trade payables decreased by 9.8% from US$10.7 million as at 31 December 2011 to US$9.6 million as at 31 December 2012, mainly reflecting the lower period-end purchase resulting from strengthened management of inventories. Average trade payables turnover days increased from 22 days for the year ended 31 December 2011 to 32 days for the year ended 31 December 2012, mainly because the top product was purchased in full by use of letter of credit in 2012.

Liquidity and Financial Resources

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2012	2011
	US$'000	US$'000
Net cash from operating activities	69,790	62,744
Net cash used in investing activities	(52,977)	(95,001)
Net cash used in financing activities	(8,307)	(6,054)
Net increase (decrease) in cash and cash equivalent	8,506	(38,311)
Cash and cash equivalent at beginning of the year	97,906	133,987
Effect of foreign exchange rate changes	750	2,230
Cash and cash equivalent at end of the year	107,162	97,906

Net cash from operating activities
The Group's net cash generated from operating activities was US$69.8 million for the year ended 31 December 2012 compared with US$62.7 million for the year ended 31 December 2011, an increase of 11.2% mainly due to the growth in sales.

Net cash used in investing activities
For the year ended 31 December 2012, the Group's net cash used in investing activities was US$53.0 million compared with US$95.0 million for the year ended 31 December 2011, a decrease of 44.2% mainly due to the acquisition of subsidiaries in last year.

Net cash used in financing activities
For the year ended 31 December 2012, the Group's net cash used in financing activities was US$8.3 million compared with US$6.1 million for the year ended 31 December 2011, a decrease of 37.2% mainly due to an increase in dividend paid.

Net Current Assets

	As at 31 December	
	2012	2011
	US$'000	US$'000
Current Assets		
Inventories	15,488	21,040
Trade and other receivables	92,891	73,010
Tax recoverable	1,052	95
Pledged bank deposit	73,261	39,471
Bank balances and cash	107,162	97,906
	289,854	231,522
Current Liabilities		
Trade and other payables	25,175	28,410
Secured bank borrowings	64,845	39,994
Deferred consideration payables	812	1,147
Derivative financial instruments	-	645
Tax payable	2,605	4,088
	93,437	74,284
Net current assets	196,417	157,238

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2012	2011
	US$'000	US$'000
Purchase of available-for-sale investments	13,635	-
Purchase of intangible assets	5,244	-
Purchase of property, plant and equipment	5,752	13,796
	24,631	13,796

Debts

The following table shows the Group's debts:

	As at 31 December	
	2012	2011
	US$'000	US$'000
Interest bearing secured bank borrowings	64,845	39,994

The Group's gearing ratio, calculated as secured bank borrowings divided by total assets, increased to 11.7% as at 31 December 2012 from 8.4% as at 31 December 2011, mainly reflecting an increase in secured bank borrowings.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 32 to the financial statements.

Dividend

For the year ended 31 December 2012, the Group paid an interim dividend for 2012 and a final dividend for 2011 of US$15.6 million and US$12.9 million, respectively. For the year ended 31 December 2011, the Group paid an interim for 2011 and a final dividend for 2010 of US$10.3 million and US$15.1 million, respectively.

Director and Senior Management

Executive Director

Mr. Lam Kong, aged 48, is the Chairman, Chief Executive Officer ("CEO") and the President of the Group and was appointed as an executive Director, on 18 December 2006. He acquired Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe") through his company over 17 years ago, building the business from a small company engaged in trading of pharmaceutical products to a leading pharmaceutical service company providing marketing, promotion and sale services. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy and the management of the overall operation of the Group. Mr. Lam possesses clinical experience and has over 17 years of experience in marketing, promotion, sale and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, the name of which was changed to Guangdong Medical College in 1992. Mr. Lam is a member of the Nomination Committee of the Company.

Mr. Lam is a controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on pages 29 of this annual report.

Mr. Chen Hongbing, aged 46, is the Chief Operating Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and office administration. He had acquired about four years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He graduated from Nanjing Medical College with a bachelor's degree in clinical medicine in 1990.

Mr. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 29 of this annual report.

Ms. Chen Yanling, aged 42, is the Chief Financial Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial affairs, accountant, financing, taxation, audit, internal control and investor relations affairs. She received her accountancy qualification in 1997 from the Ministry of Personnel of the People's Republic of China and received EMBA from the International East-west University in 1999.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 29 of this annual report.

Mr. Hui Ki Fat, aged 71, was appointed as an executive Director on 26 April 2007. Mr. Hui has also been a director of the Group's subsidiary since 1999. He was a director and general manager of Jebsen & Company Ltd. in Tianjin, China for which he worked from 1968 to 1981 and from 1983 to 1998. Mr. Hui is the father of the Company Secretary, Mr. Hui Vincent Wing Sin.

Mr. Hui is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 29 of this annual report.

Ms. Sa Manlin, aged 53, was appointed as an executive Director on 11 December 2012. Ms. Sa joined the Group in 1995 and has remained with the Group since then. Ms. Sa is responsible for the products' marketing and promotion matters of Shenzhen Kangzhe. She had acquired about ten years' clinical experience prior to joining the Group in 1995. Ms. Sa received a bachelor's degree in medicine from Shanghai University of Traditional Chinese Medicine in 1984 and a master's degree in Business Administration from the Asia International Open University (Macau) in 2003, which was officially renamed as City University of Macau in 2011.

Ms. Sa is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 29 of this annual report.

Independent Non-executive Directors

Mr. Cheung Kam Shing, Terry, aged 50, was appointed as an independent non-executive Director of the Company on 18 August 2010. Mr. Cheung has more than 20 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. He is currently the Chief Operating Officer of Greater China Corporate Consultancy & Services, being a professional services company providing corporate governance, accounting, tax and other corporate advisory services, since July 2010. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid 2010. Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Dr. Peng Huaizheng, aged 50, was appointed as an independent non-executive Director of the Company on 4 May 2010. He is an independent financial adviser in London and a director of Northland Capital Partner Investment Management (NCP IM) in Canada. Prior to this, he was a partner of Northland Bancorp and a director of corporate finance and head of life sciences at Seymour Pierce. Prior to that, Dr. Peng was a portfolio manager of global life science and technology funds at Reabourne Technology Investment Management Limited (now part of Close Brothers Asset Management Company). He also served as a non-executive director of China Medstar, which was an AIM-listed company, from 2006 until the company was delisted from AIM in 2008. He was a speaker at various international conferences in relation to investment in bio-technology industry. He received his bachelor's degree in medicine from Hunan Medical College (now known as Central South University Xiangya School of Medicine, China) in 1984, his master's degree in medicine from Hunan Medical College in 1989 and his doctoral degree of philosophy in molecular pathology from University College London Medical School in London, UK in 1998. Dr. Peng is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Mr. Wu Chi Keung, aged 56, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently the managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), Greater China Professional Services Limited (stock code: 8193), Zhong Fa Zhan Holdings Limited (stock code: 475) and China Renji Medical Group Limited (stock code: 648), all the shares of which are listed on the Stock Exchange. Mr. Wu was also an independent non-executive director of JF Household Furnishings Limited (stock code: 776) during the year until 5 October 2012. Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. Mr. Wu graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy. Mr. Wu is the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company.

Senior Management

Dr. Ma Jonathan Zheng, aged 46, has been the Chief International Operations Officer of the Group since 2007. He joined the Group as an officer responsible for the Group's international operations in 2005. He is primarily responsible for looking for and introducing new products to the Group. Earlier in his career, Dr. Ma worked at Pfizer in the United States. Dr. Ma received his bachelor's degree in statistics of the mathematics department from Peking University in 1988, a master's degree in science from University of Texas at El Paso in 1991 and a PhD from Yale University in 1995.

Dr. Wong Wai Ming, aged 52, has been the Chief Technical Officer of the Group since 2010. He first joined the Group in 2000 and then became the Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to the Group for selecting pharmaceutical products. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor's degree in science and PhD from the University of Hong Kong in 1983 and 1993, respectively.

Company Secretary

Mr. Hui Vincent Wing Sin, aged 40, joined the Group and has been the Company Secretary of the Group since 2007. Mr. Hui is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Prior to joining the Group, he worked for Ernst & Young, Hong Kong. Mr. Hui received a bachelor's degree in biochemistry with nutrition and a master's degree in accounting and management science from the University of Southampton in the UK in 1994 and 1997, respectively. During the Reporting Period, Mr. Hui had received the professional training for no less than 15 hours to promote his skill and knowledge.

Directors' Report

The board of Directors of the Company (the "Board") is pleased to present the Directors' report and audited consolidated financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 39 to the financial statements.

Results

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income in page 43.

Reserves

Movements in reserves for the year ended 31 December 2012 are set out in the consolidated statement of changes in equity in page 46 and note 30 to the financial statements.

Distributable Reserves

As at 31 December 2012, the Group had distributable reserves of US$401.9 million available for distribution to our shareholders.

Property, Plant and Equipment

Details of changes in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

Movements in the share capital of the Company are set out in note 28 to the financial statements.

Final Dividend

The Board of Directors is pleased to recommend a final dividend of US0.774 cent (equivalent to HK$0.06) per Share for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on Thursday, 2 May 2013. The register of members of the Company will be closed from Tuesday, 30 April 2013 to Thursday, 2 May 2013 (both days inclusive). The final dividend will be paid to shareholders on Friday, 10 May 2013 after the shareholders' approval at the AGM dated on Tuesday, 24 April 2013.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

The Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2012.

Directors

The Directors of the Company during the year and up to the date of this Report were:

Executive Directors
Mr. LAM Kong (Chairman and CEO)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)
Mr. HUI Ki Fat
Ms. SA Manlin (appointed on 11 December 2012)

Non-executive Director
Ms. HOU Xiaoxuan (resigned on 11 December 2012)

Independent Non-executive Directors
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
Mr. WU Chi Keung

Pursuant to Article 16.2 of the Articles of Association, any director appointed by the Board to fill a causal vacancy or as an addition to the Board shall hold office until the next following AGM of the Company and shall be eligible for re-election at that meeting. Ms. SA Manlin was appointed by the Board on 11 December 2012 as an executive director. Accordingly, Ms. Sa shall retire from her office at the AGM and, being eligible, will offer herself for re-election at the AGM.

Pursuant to Article 16.18 of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall be eligible for re-election. Accordingly, Ms. CHEN Yanling, Mr. CHEUNG Kam Shing, Terry, and Dr. PENG Huaizheng will retire from their offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. CHEN Yanling, Mr. CHEUNG Kam Shing, Terry, Ms. SA Manlin and Dr. PENG Huaizheng. Details of these retiring Directors are set out in the circular issued on 21 March 2013.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 23 to 25 of this annual report.

Directors' Service Contracts

Each of the Directors of the Company has respectively entered into an appointment letter with the Company, and all the executive Directors and non-executive independent Directors were appointed for a three-year and one-year term, respectively. Their appointments are subjected to retirement from office by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Save as disclosed above, none of the Directors has entered or intend to enter into any contract of service with the Company or any of its subsidiaries which cannot be determinable by the employer within one year without payment of compensation (except for statutory compensation).

Management Contracts

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

Key Employee Benefit Scheme

Details of the key employee benefit scheme is set out in note 38 to the financial statements.

Directors' interests in Contracts of Significance

During the Reporting Period, none of the Directors had a material interest, whether 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.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2012, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in Controlled Corporation	1,215,219,000(L) (Note2)	50.32%
		Interest in Controlled Corporation	8,763,162 (L) (Note 3)	0.36%
Mr. Chen Hongbing	The Company	Beneficial Owner	56,037,225 (L)	2.32%
		Interest in Controlled Corporation	60,000,000(L) (Note 4)	2.48%
		Beneficiary of a Trust	8,763,162 (L) (Note 5)	0.36%
Ms. Chen Yanling	The Company	Beneficial Owner	7,835,250 (L)	0.32%
		Interest in Controlled Corporation	3,750,000 (L) (Note 6)	0.16%
		Beneficiary of a Trust	8,763,162(L) (Note 5)	0.36%
Ms. Hou Xiaoxuan	The Company	Beneficial Owner	3,000,000 (L)	0.12%
		Interest in Controlled Corporation	75,000,000(L) (Note 7)	3.11%
		Family Interest	3,975,750(L) (Note 8)	0.16%
		Beneficiary of a Trust	8,763,162(L) (Note 5)	0.36%
Mr. Hui Ki Fat	The Company	Beneficial Owner	6,402,737(L)	0.27%
Ms. Sa Manlin	The Company	Beneficial Owner	6,712,237(L)	0.28%
		Family Interest	1,250,000(L) (Note 9)	0.05%
		Beneficiary of a Trust	8,763,162(L) (Note 5)	0.36%

Notes:

1. The letter “L” denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust, (a discretionary trust established by the Company on 31 July 2009 for the Key Employee Benefits Scheme). Please refer to note 5 below for further details.
4. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
5. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling, Ms. Hou Xiaoxuan and Ms. Sa Manlin and they are deemed to be interested in these 8,763,162 Shares. The references to these 8,763,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
6. These Shares are held by Ms. Chen Yanling through Great Creation Holdings Limited, a company wholly owned by her.
7. These Shares are held by Ms. Hou Xiaoxuan through Wide Harvest Limited, a company wholly owned by her.
8. These Shares are held by Mr. Jia Jinbin, the spouse of Ms. Hou Xiaoxuan, in respect of which Ms. Hou Xiaoxuan is deemed to be interested in.
9. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the year any right to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2012, the Directors were not aware of any other person (other than the Directors of the Company), who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 36 and note 38 to the financial statements.

Existing Share Options

Details of the existing share options are set out in note 29 to the financial statements.

Employees

As at 31 December 2012, the Group had 2,091 employees.

Directors' and Management Emoluments

Particulars of directors' emoluments and the five highest paid individuals of the Group are set out in note 8 and note 9 to the financial statements, respectively.

For the year ended 31 December 2012, emoluments of senior management (including Chief International Operations Officer Dr. Ma Jonathan Zheng and Chief Technical Officer Dr. Wong Wai Ming) and Company Secretary Mr. Hui Vincent Wing Sin was between HK$300,000 and HK$800,000 each.

Major Customers and Suppliers

For the year ended 31 December 2012, the percentage of sales to the Group's five largest customers was approximately 15.0% of the Group's total sales, and sales to the top customer accounted for approximately 4.9% of the total sales.

For the year ended 31 December 2012, the percentage of purchases from the Group's five largest suppliers was approximately 81.8% of the Group's total purchases, and purchase from the top supplier accounted for approximately 32.4% of the total purchases.

None of the Group's directors, the contacts of the directors, the shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 33 to 40 of this annual report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this annual report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands — Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the Company's businesses.

Mr. Lam Kong and Treasure Sea stated that they complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Company and any of its subsidiaries, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Company and any of its subsidiaries during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Company. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period from and did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Donations

The Company made no donation in any form for the year ended 31 December 2012.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 April 2012 to 31 December 2012 and of the old CG Code from 1 January 2012 to 31 March 2012, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.The details of the Company's compliance with the CG Code are set out on pages 33 to 40 of this annual report.

Competing Interests

None of the Directors or managements and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the businesses of the Company or any of its subsidiaries or has any other conflict of interest with the Company during the Reporting Period.

Audit Committee

The details of Audit Committee are set out in page 37 of the Corporate Governance Report of this annual report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu as auditors since the listing of the Company on the Main Board of the HKEx on 28 September 2010. The financial statements in the Annual Report for the year have been audited by Deloitte Touche Tohmatsu. A resolution will be submitted at the AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

Corporate Governance Report

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance and has adopted sound governance and disclosure practices. The Company believes that maximizing long-term shareholder value by increasing the Group's accountability and transparency through continuous improving the level of corporate governance.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 April 2012 to 31 December 2012 and of the old CG Code from 1 January 2012 to 31 March 2012, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2012. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Operation of the Board

In accordance with good corporate governance principles, the Board convened regular meetings in accordance with, and complied strictly with the applicable laws, regulations and the Articles of Association in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders as a whole.

The role and responsibilities of the Board broadly cover reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate measures and control systems to manage these risks; and reviewing and approving important matters such as financial results, investments and divestments and other material transactions.

The Company has established three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee, which mainly comprise independent non-executive Directors and responsible for overseeing particular aspects of the Group's business, and to provide the Group with recommendations for improvements. Please see below for the work scope of these committees. The Board has delegated the responsibilities of the day-to-day management and operation of the Group's businesses to the senior management of the Company and its subsidiaries.

Composition of the Board

As at the date of this annual report, the Board consists of eight Directors, including five executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Mr. Hui Ki Fat and Ms. Sa Manlin (appointed on 11 December 2012); three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Dr. Peng Huaizheng and Mr. Wu Chi Keung; the non-executive Director, Ms. Hou Xiaoxuan, resigned on 11 December 2012. Biographical details of the Directors are set out on pages 23 to 25 of this annual report. Save as disclosed in the section headed "Directors and Senior Managements' Biographies" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Appropriate insurance cover for the Directors' and senior managements' liabilities in respect of legal actions against the Directors and senior managements of the Company arising out of corporate activities of the Group has been arranged by the Company.

Board Attendances and Time Commitment

During the Reporting Period, the Company held six Board meetings and one AGM. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and CEO	4/6	1/1
Mr. Chen Hongbing	Chief Operating Officer	6/6	1/1
Ms. Chen Yanling	Chief Finance Officer	6/6	1/1
Mr. Hui Ki Fat	Executive Director	5/6	0/1
Ms. Sa Manlin*	Executive Director*	1/1	0/0
Ms. Hou Xiaoxuan*	Non-Executive Director*	3/4	0/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	6/6	1/1
Dr. Peng Huaizheng	Independent Non- Executive Director	4/6	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	6/6	1/1

*Notes:

1.Ms. Sa Manlin was appointed on 11 December 2012.

2.Ms. Hou Xiaoxuan resigned on 11 December 2012.

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director for the Board meetings and AGM, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Reporting Period.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman of the board (the "Chairman") and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Independent Non-executive Directors

For the year ended 31 December 2012, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

The independent non-executive Directors are appointed for a period of one year. All of them are subject to retirement by rotation and re-election by shareholders at AGM in accordance with the Articles of Association of the Company. The responsibilities of the independent non-executive Directors include, without limitation: regular attendance at meetings of the Board and of Board Committees of which they are members; provision of independent opinion at meetings of the Board and other Board Committees; service on the Audit Committee, Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company as a whole.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received professional lawyer's training covering the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his /her responsibilities under the Listing Rules and other relevant legal requirements.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company Secretary also organizes and arranges seminars on the latest development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the Reporting Period, the Company organized for the Directors and senior management certain in-house workshops on the Listing Rules.

According to the records maintained by the Company, the 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 revised CG Code on the continuous professional development during the Reporting Period.

	Corporate Governance/ Updates on Laws, Rules and Regulations/Updates on Industry Specific	
	Written Materials	Briefings/Seminars
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Mr. Hui Ki Fat	√	√
Ms. Sa Manlin*	√	
Non-executive Director		
Ms. Hou Xiaoxuan*	√	√
Independent Non-executive Directors		
Mr. Cheung Kam Shing, Terry	√	√
Dr. Peng Huaizheng	√	√
Mr. Wu Chi Keung	√	√

*Notes:

1.Ms. Sa Manlin was appointed on 11 December 2012.

2.Ms. Hou Xiaoxuan resigned on 11 December 2012.

Committees

The Company has established Audit Committee, Remuneration Committee and Nomination Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinion and recommendations for consideration by the Board under its own defined terms of reference.

Audit Committee

The Company established an Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Dr. Peng Huaizheng as the Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2012 have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2012, the Audit Committee has held three meetings on 15 March, 14 August and 20 December 2012, respectively. At the meetings, the Audit Committee reviewed the annual results for 2011 and the interim results for 2012 respectively with the external auditors, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board.Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year Ended 31 December 2012
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry	3/3
Dr. Peng Huaizheng	3/3

Remuneration Committee

The Company established a Remuneration Committee in 2007. The Remuneration Committee comprises three independent non-executive Directors, and is chaired by Dr. Peng Huaizheng, with Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung as the committee members.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on the policy and structure for remunerations of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) approving the terms of Directors' service contracts, and (iv) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time. The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

The Remuneration Committee held three meetings on 15 March, 14 August and 11 December 2012, respectively. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year Ended 31 December 2012
Dr. Peng Huaizheng	3/3
Mr. Cheung Kam Shing, Terry	3/3
Mr. Wu Chi Keung	3/3

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Dr. Peng Huaizheng and Mr. Wu Chi Keung as the committee members.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, and to take up references and to consider related matters. The nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship are posted on the Company's website (http://www.cms.net.cn). The terms of reference of the Nomination Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

The Nomination Committee held three meetings on 15 March, 14 August and 11 December 2012, respectively. During the Reporting Period, the Nomination Committee has reviewed the appointment of the Directors, the structure, size and composition of the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year Ended 31 December 2012
Mr. Cheung Kam Shing, Terry	3/3
Mr. Lam Kong	1/3
Mr. Wu Chi Keung	3/3
Dr. Peng Huaizheng	3/3

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Auditor's Remuneration

For the year ended 31 December 2012, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$1.6 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2012. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

Internal Controls

The Directors are responsible for maintaining a reliable and effective internal control system. The Company has established an internal audit department with relatively independent internal audit functions. An audit committee has also been established and is responsible to the Board. The Directors are in a position to supervise, assess and improve the Company's internal controls at all levels of management, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests.

For the year ended 31 December 2012, the Company further enhanced its internal control system, strengthened awareness on risk management, regulated work flows, promoted construction of ERP system and improved risk management; at the same time, the Company emphasized financial management and control functions of the Group, enhanced construction of financial system, strengthened audit function, stabilized investment procedures, and fully reinforced supervision efforts. Through series of measures, both internal management and operational efficiency of the Group have been significantly improved. The Board of Directors of the Company review its internal control system from time to time and consider that the internal control system of the Company is effective, resources in accounting and financial reporting functions, qualifications of staff and their experience are sufficient.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited (Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong). Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

Articles of Association

During the Reporting Period, there were no changes made in the Company's Articles of Association.

Communications with Shareholders and Investors

The Company actively communicates with shareholders and investors through multiple channels as shown below: (i) Held Annual General Meeting and Extraordinary General Meeting which provides a platform for shareholders to communicate with the board of directors of the Company (ii) Timely release of the latest news and updates of the Company on the official website for the investors viewing; (iii) Send information and internal magazine of the Company to shareholders and investors through e-mail or post at regular intervals.

During the year, the Company actively attended different forms of investors' communication activities, including face to face dialogue with investors, telephone conference and roadshow activities organized by sell side institutions, with the hope that investors can thoroughly understand the business model and development strategy of the Company. For the year ended 31 December 2011, Management of the Company has received over 1,000 institution representatives or individual domestic and oversea investors. In addition, with the help of independent third-parties have actively increased the interaction and communication with investors, and employed professional Hong Kong institution as consultant of investor relations, effectively maintain and improve investor relations affairs.

The Company believes that shareholders' rights should be well respected and protected. According to the Listing Rules, the Company set up Shareholders Communication Policy and will regularly review this Policy to ensure its effectiveness. As at the date of this report, the Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. We have reported to our shareholders and investors through various formal channels, and maintain good communication with shareholders and investors so that they may make an informed assessment for their investment and exercise their rights as shareholders. In the future, the Company will maintain effective communications with investors.

Deloitte.
德勤

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 103, which comprise the consolidated statement 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 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 our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 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
19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
Turnover	5	281,866	210,393
Cost of goods sold		(116,064)	(91,272)
Gross profit		165,802	119,121
Other gains and losses	6	6,968	8,057
Selling expenses		(57,534)	(42,960)
Administrative expenses		(18,810)	(15,339)
Finance costs	7	(2,002)	(934)
Share of result of an associate		59	130
Share of result of a jointly controlled entity		-	6
Profit before taxation		94,483	68,081
Income tax expense	10	(9,355)	(5,720)
Profit for the year	11	85,128	62,361
Other comprehensive income			
Exchange differences arising on translation		393	7,405
Change in fair value on available-for-sale investments			
- fair value gain		2,718	-
- deferred tax relating to change in fair value		(631)	-
Share of other comprehensive income of an associate		2	2
Fair value gain (loss) on hedging instruments in cash flow hedges		645	(597)
Other comprehensive income for the year, net of income tax		3,127	6,810
Total comprehensive income for the year		88,255	69,171
Profit for the year attributable to:			
Owners of the Company		85,039	62,276
Non-controlling interests		89	85
		85,128	62,361
Total comprehensive income attributable to:			
Owners of the Company		88,161	69,037
Non-controlling interests		94	134
		88,255	69,171
		US cent	US cent (Restated)
Earnings per share	13		
Basic		3.522	2.624
Diluted		N/A	2.619

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2012

	NOTES	2012	2011
		US$'000	US$'000
Non-current assets			
Property, plant and equipment	14	10,169	7,724
Prepaid lease payments	15	4,440	4,533
Interest in an associate	16	1,173	1,305
Intangible assets	17	35,224	33,828
Goodwill	18	178,634	178,634
Available-for-sale investments	19	16,374	-
Deferred tax assets	20	2,959	4,688
Deposit paid for acquisition of property, plant and equipment		13,940	11,933
		262,913	242,645
Current assets			
Inventories	21	15,488	21,040
Trade and other receivables	22	92,891	73,010
Tax recoverable		1,052	95
Pledged bank deposits	23	73,261	39,471
Bank balances and cash	23	107,162	97,906
		289,854	231,522
Current liabilities			
Trade and other payables	24	25,175	28,410
Secured bank borrowings	25	64,845	39,994
Deferred consideration payables	26	812	1,147
Derivative financial instruments	27	-	645
Tax payable		2,605	4,088
		93,437	74,284
Net current assets		196,417	157,238
Total assets less current liabilities		459,330	399,883

	NOTES	2012	2011
		US$'000	US$'000
Capital and reserves			
Share capital	28	12,074	8,049
Reserves	30	436,246	380,564
Equity attributable to owners of the Company		448,320	388,613
Non-controlling interests		2,654	2,560
		450,974	391,173
Non-current liabilities			
Deferred tax liabilities	20	4,999	4,589
Deferred consideration payables	26	3,357	4,121
		8,356	8,710
		459,330	399,883

The consolidated financial statements on pages 43 to 103 were approved and authorised for issue by the Board of Directors on 19 March 2013 and are signed on its behalf by:

LAM Kong	CHEN Yanling
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to the owners of the Company												
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000 (note 30)	Share option reserve US$'000 (note 29)	Surplus reserve fund US$'000 (note 30)	Investments revaluation reserve US$'000	Translation reserve US$'000	Hedging reserve US$'000	Accumulated profits US$'000	Dividend reserve US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2011	5,718	126,491	2,058	570	9,158	-	8,332	(48)	32,842	14,868	199,989	-	199,989
Profit for the year	-	-	-	-	-	-	-	-	62,276	-	62,276	85	62,361
Other comprehensive income for the year	-	-	-	-	-	-	7,358	(597)	-	-	6,761	49	6,810
Total comprehensive income for the year	-	-	-	-	-	-	7,358	(597)	62,276	-	69,037	134	69,171
Issue of shares for exercise of share options (note 28)	71	1,518	-	-	-	-	-	-	-	-	1,589	-	1,589
Issue of shares in consideration for the acquisition of a subsidiary (note 28 and note 33(a))	650	142,703	-	-	-	-	-	-	-	-	143,353	-	143,353
Transfer of share option reserve on exercise of share option	-	570	-	(570)	-	-	-	-	-	-	-	-	-
Release of translation reserve upon disposal of a jointly controlled entity	-	-	-	-	-		(5)	-	5	-	-	-	-
Acquisition of subsidiaries (note 33(b))	-	-	-	-	-	-	-	-	-	-	-	2,426	2,426
Dividends paid	-	-	-	-	-	-	-	-	(10,487)	(14,868)	(25,355)	-	(25,355)
Dividends proposed	-	-	-	-	-	-	-	-	(12,879)	12,879	-	-	-
Bonus issue (note 28)	1,610	(1,610)	-	-	-	-	-	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	2,341	-	-	-	(2,341)	-	-	-	-
Balance at 31 December 2011	8,049	269,672	2,058	-	11,499	-	15,685	(645)	69,416	12,879	388,613	2,560	391,173
Profit for the year	-	-	-	-	-	-	-	-	85,039	-	85,039	89	85,128
Other comprehensive income for the year	-	-	-	-	-	2,087	390	645	-	-	3,122	5	3,127
Total comprehensive income for the year	-	-	-	-	-	2,087	390	645	85,039	-	88,161	94	88,255
Dividends paid	-	-	-	-	-	-	-	-	(15,575)	(12,879)	(28,454)	-	(28,454)
Dividends proposed	-	-	-	-	-	-	-	-	(18,690)	18,690	-	-	-
Bonus issue (note 28)	4,025	(4,025)	-	-	-	-	-	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	2,626	-	-	-	(2,626)	-	-	-	-
Balance at 31 December 2012	12,074	265,647	2,058	-	14,125	2,087	16,075	-	117,564	18,690	448,320	2,654	450,974

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012	2011
		US$'000	US$'000
Operating activities			
Profit before taxation		94,483	68,081
Adjustments for:			
Share of result of an associate		(59)	(130)
Share of result of a jointly controlled entity		-	(6)
Amortisation of intangible assets	17	3,923	3,087
Depreciation of property, plant and equipment	14	1,285	1,072
Release of prepaid lease payments		103	90
Interest income		(5,102)	(2,265)
Interest expenses		1,772	673
Imputed interest expense on deferred consideration payables		230	261
Loss (gain) on disposal of property, plant and equipment		25	(8)
Loss on disposal of a jointly controlled entity		-	20
Allowance for inventories		1,599	55
(Reversal of) allowance for bad and doubtful debts		(134)	107
Operating cash flows before movements in working capital		98,125	71,037
Decrease (increase) in inventories		3,985	(1,546)
Increase in trade and other receivables		(18,692)	(13,200)
Decrease in held for trading investments		-	38
Decrease in amount due from a jointly controlled entity		-	673
(Decrease) increase in trade and other payables		(3,301)	11,083
Cash generated from operations		80,117	68,085
PRC Enterprise Income Tax paid		(9,916)	(5,042)
Hong Kong Profits Tax paid		(411)	(299)
Net cash from operating activities		69,790	62,744
Investing activities			
Purchase of available-for-sale investments		(13,635)	-
Purchase of intangible assets		(5,244)	-
Purchase of property, plant and equipment		(5,752)	(13,796)
Placement of pledged bank deposit		(115,998)	(38,488)
Release of pledged bank deposit		82,346	4,643
Interest received		5,102	2,265
Dividend received from an associate		193	258
Proceeds from disposal of property, plant and equipment		11	36
Proceeds from disposal of a jointly controlled entity		-	85
Acquisition of subsidiaries	33	-	(50,004)
Net cash used in investing activities		(52,977)	(95,001)

	NOTE	2012	2011
		US$'000	US$'000
Financing activities			
Interest paid		(2,624)	(918)
Dividends paid		(28,454)	(25,355)
Proceeds from issue of shares		-	1,589
Repayment of deferred consideration payables	33(a)	-	(11,455)
Repayment of deferred consideration payables - others		(1,361)	(1,105)
New bank borrowings raised		107,488	39,970
Repayment of borrowings		(83,356)	(8,780)
Net cash used in financing activities		(8,307)	(6,054)
Net increase (decrease) in cash and cash equivalents		8,506	(38,311)
Cash and cash equivalent at 1 January		97,906	133,987
Effect of foreign exchange rate changes		750	2,230
Cash and cash equivalent at 31 December represented by bank balances and cash		107,162	97,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by the Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Long Shan Road, Nan Shan, Shenzhen, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, distribution and import of drugs.

The functional currency of the Company is Renminbi ("RMB") as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in United States Dollars ("US$"), which is a currency widely and commonly recognised in the global economy and is freely convertible into a number of foreign currencies. Therefore, the directors consider the presentation in US$ to be more useful for its current and potential investors.

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

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

Amendments to IAS 12	Deferred tax: recovery of underlying assets
Amendments to IFRS 7	Financial instruments: disclosures - transfers of financial assets

The application of the above amendments to 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 on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND 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[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 in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[4]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[2]
IFRIC - Int 20	Stripping costs in the production phase of a surface mine[1]

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.

4 Effective for annual periods beginning on or after 1 July 2012.

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 AND 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 of the Company anticipate that the adoption of IFRS 9 will have no material impact on the Group's result, the financial position and disclosure of the Group.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income. Under the amendments to IAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the adoption of other new and revised IFRSs will have no material impact on the Group's result, the financial position and disclosure of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. 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 and by the Hong Kong Companies Ordinance.

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

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 and 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.

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company. The fair value of the shares issued by the Company in consideration for the acquisition of equity interest in a subsidiary is determined based on the fair value of the shares at the time when changes in ownership interests take place.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 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 values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

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

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

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

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

Investment in an associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment in an associate - continued

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided 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 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).

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

Research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised 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 any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 (other than construction in progress) 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 (other than construction in progress) less their residual values over their estimated 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.

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

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

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered 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.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (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 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local Land Bureau of the PRC Government.

Land use rights are stated at cost and are charged to profit or loss in the consolidated statement of comprehensive income over the period for which the relevant land use right has been granted to the Group.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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.

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 or financial liabilities at fair value through profit or loss ("FVTPL")) 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

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, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity securities held by the Group that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the fair value of available-for-sale equity securities are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as 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 assets, such as trade and other receivables 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 credit period granted, 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 the estimated future cash flows discounted at the financial asset's original effective interest rate.

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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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.

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity 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 Group are recorded at the proceeds received, net of direct issue costs.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities

The Group's financial liabilities, including trade and other payables, bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair values 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.

Hedge accounting

The Group uses derivative financial instruments (primarily interest rate swaps and foreign currency forward contracts) to hedge its exposure against changes in interest rate and foreign currency exposure on bank borrowings.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated as qualifying hedging instruments for cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

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 asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for good sold in the normal course of business, net of customer returns, rebates, other similar allowances 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.

Service fee income is recognised as services are rendered.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, 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 rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

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

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

Government grants

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes, which are defined contribution schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Equity-settled share-based payment transactions

Share options granted to the underwriter

Share options issued in exchange for services in connection with the underwriting of the new shares of the Company by way of placing and public offer are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received in relation to issue of new shares are recognised as in other comprehensive income (share options reserve).

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of goodwill and intangible assets

For the purpose of impairment testing, the entire amount of goodwill and part of the intangible assets has been allocated to the three cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the value in use of the CGUs. The value in use of the related CGUs requires the Group to estimate the expected future cash flows from the Group's exclusive distribution rights and patent rights. If the actual future cash flows are less than expected, impairment may be required. In the opinion of the directors of the Company, no impairment is required for the year ended 31 December 2012 and 2011.

Deferred tax assets

As at 31 December 2012, a deferred tax asset of approximately US$2,959,000 (2011: US$4,688,000) in relation to unrealised profits on inventories and impairment loss on property, plant and equipment has been recognised in the Group's consolidated statement of financial position. The recognition of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal takes places.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2012, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately US$50,345,000 (2011: US$40,305,000) and US$191,000 (2011: US$331,000), respectively.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold during the year.

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used to resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. Other than revenue analysis that is disclosed below, no operating results and other discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue for external customers are attributed to the PRC and a majority of non-current assets of the Group are located in the PRC.

Revenue from major products

The following is an analysis of the Group's revenue by major products:

	2012	2011
	US$'000	US$'000
Deanxit	88,079	67,046
Ursofalk	60,750	46,244
XinHuoSu	26,820	18,352
YiNuoShu	26,150	16,269
ShaDuoLiKa	22,520	15,657
Augentropfen Stulln Mono eye-drops	13,280	9,800
Salofalk	11,439	7,084
Bioflor	9,214	4,863
GanFuLe	5,018	4,874
Exacin	3,684	10,505
XiDaKang	3,326	1,142
Cystistat	1,041	1,106
Others	10,545	7,451
Total	281,866	210,393

No single customer contributes over 10% of the total sales of the Group for both years.

6. OTHER GAINS AND LOSSES

	2012	2011
	US$'000	US$'000
Net exchange (loss) gain	(720)	4,283
Government subsidies (Note a)	2,010	1,245
Interest income	5,102	2,265
Loss on disposal of a jointly controlled entity (Note b)	-	(20)
Fair value change on investments held for trading	2	42
(Loss) gain on disposal of property, plant and equipment	(25)	8
Others	599	234
	6,968	8,057

Notes:

a. The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to reimburse the research and development expenses incurred in prior years and other subsidies granted to the Group to encourage business operation in the PRC. In 2011, a subsidiary of the Group received a refund of value-added tax on sales from the relevant PRC tax authority to encourage business in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

b. During the year ended 31 December 2011, the equity interests of 55% in a jointly controlled entity, 廣東蘭太康虹醫藥有限公司 (Guangdong Lan Tai Kanghong Pharmaceutical Ltd.) ("Guangdong Lantai"), was disposed of to a third party for a consideration of RMB561,000 (approximately US$85,000) and loss on disposal of US$20,000 was recognised in profit or loss. Guangdong Lantai was established and operated in PRC and principally engaged in distribution in medicine.

7. FINANCE COSTS

	2012	2011
	US$'000	US$'000
Interest on bank borrowings wholly repayable within five years	1,772	673
Imputed interest on deferred consideration payables	230	261
	2,002	934

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2012	2011
	US$'000	US$'000
Directors' fees	184	184
Other emoluments to executive directors		
- basic salaries and allowances	332	316
- retirement benefits scheme contributions	19	16
	535	516

Details of emoluments paid by the Group to the directors and the chief executive are as follows:

	2012	2011
	US$'000	US$'000
Mr. Lam Kong		
- directors' fee	23	23
- basic salaries and allowances	93	93
- retirement benefits scheme contributions	2	2
	118	118
Mr. Chen Hong Bing		
- directors' fee	23	23
- basic salaries and allowances	104	98
- retirement benefits scheme contributions	5	4
	132	125
Ms. Hou Xiao Xuan (Note 1)		
- directors' fee	22	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	7	6
	29	29
Ms. Chen Yan Ling		
- directors' fee	23	23
- basic salaries and allowances	84	79
- retirement benefits scheme contributions	5	4
	112	106
Mr. Hui Ki Fat		
- directors' fee	23	23
- basic salaries and allowances	46	46
- retirement benefits scheme contributions	-	-
	69	69

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

	2012	2011
	US$'000	US$'000
Ms. Sa Man Lin (Note 2)		
- directors' fee	1	-
- basic salaries and allowances	5	-
- retirement benefits scheme contributions	-	-
	6	-
Mr. Peng Huaizheng		
- directors' fee	23	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	23	23
Mr. Wu Chi Keung		
- directors' fee	23	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	23	23
Mr. Cheung Kam Shing, Terry		
- directors' fee	23	23
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	23	23
Total	535	516

Notes:

1. Resigned on 11 December 2012.
2. Appointed on 11 December 2012.

Mr. Lam Kong is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2012 included three directors (2011: 3), details of whose emoluments are set out above. The emoluments of the remaining 2 individuals for the year ended 31 December 2012 (2011: 2) were as follows:

	2012	2011
	US$'000	US$'000
Employees		
- basic salaries and allowances	195	158
- retirement benefits scheme contributions	9	4
	204	162

The emoluments of the employee were within the following bands:

	Number of employees	
	2012	2011
Up to HK$1,000,000	2	2

During the year, no emoluments were paid by the Group to the directors or the two highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. INCOME TAX EXPENSE

	2012	2011
	US$'000	US$'000
Current tax:		
PRC Enterprise Income Tax	7,846	5,599
Hong Kong Profits Tax	-	595
Other jurisdictions	6	6
	7,852	6,200
(Over)underprovision in prior years		
PRC Enterprise Income Tax	-	(179)
Hong Kong Profits Tax	1	8
	1	(171)
Deferred taxation (note 20):		
- Current year	1,502	(309)
Taxation charge for the year	9,355	5,720

10. INCOME TAX EXPENSE - continued

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the EIT Law applicable to enterprises located with a special economic zone, the Enterprise Income Tax rate applicable to Shenzhen Kangzhe Pharmaceutical Company Limited ("Kangzhe Shenzhen") and 深圳市康哲醫藥科技開發有限公司 (Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited) ("Kangzhe Pharmaceutical Technology") is 25% (2011: 24%).

Pursuant to relevant laws and regulation, Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan") and 常德康哲醫藥有限公司 (Changde Kangzhe Pharmaceutical Co., Ltd.) ("Kangzhe Changde") are eligible for certain tax concession in the PRC and such tax concession are subject to renewal by the relevant tax bureau annually. Kangzhe Hunan was entitled to a reduced tax rate of 15% as approved by the relevant local tax authority in 2011 and there is no taxable income for the current year. Changde Kangzhe is entitled to a reduced tax rate of 15% as approved by the relevant local tax authority in both years.

In prior year, the Group newly acquired two subsidiaries, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Limited) (formerly known as 天津普瑞森醫藥貿易有限公司) ("Kangzhe Tianjin") (see note 33(a)) and 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Limited) (formerly known as 廣西廣明藥業有限公司) ("Kangzhe Guangming") (see note 33(b)). Starting from 1 January 2009, Kangzhe Tianjin is entitled to a reduced tax rate of 15% granted by the local tax authority until 31 March 2015. Kangzhe Guangming is entitled to reduced tax rate of 15% for 10 years, starting from 1 January 2011.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharmaceutical Agency Co., Ltd. ("CMS Pharmaceutical Agency") is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately US$6,000) or 3% on net audited profits. For the years ended 31 December 2012 and 2011, CMS Pharmaceutical Agency elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in 2011 and there is no estimated assessable profit in 2012.

10. INCOME TAX EXPENSE - continued

The taxation for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	2012	2011
	US$'000	US$'000
Profit before taxation	94,483	68,081
Tax at the applicable tax rate (Note)	23,621	16,339
Tax effect of share of result of a jointly controlled entity	-	(2)
Tax effect of share of result of an associate	(15)	(31)
Tax effect of expenses that are not deductible in determining taxable profit	1,343	1,088
Tax effect of income that is not taxable in determining taxable profit	(392)	(669)
Tax effect of tax losses not recognised	308	56
Tax effect of tax concession	(3,703)	(2,293)
Effect on different applicable tax rates of subsidiaries	(67)	(436)
Effect of tax benefit arising from Labuan Tax Act	(11,893)	(8,193)
Under(over)provision in prior years	1	(171)
Utilisation of tax loss previously not recognised	-	(24)
Deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	98	191
Others	54	(135)
Taxation charge for the year	9,355	5,720

Note: The applicable PRC Enterprise Income Tax rate of 25% (2011: 24%) is the prevailing tax rate applicable to Kangzhe Shenzhen, a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2012 US$'000	2011 US$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	184	184
Other emoluments	332	316
Pension costs	19	16
	535	516
Other staff costs	23,169	17,717
Pension costs	1,474	987
Key employee benefit expense (note 38)	665	153
Total staff costs	25,843	19,373
Auditor's remuneration	252	268
(Reversal of) allowance for bad and doubtful debts	(134)	107
Allowance for inventories	1,599	55
Release of prepaid lease payments	103	90
Depreciation of property, plant and equipment	1,285	1,072
Amortisation of intangible assets (included in cost of goods sold)	3,923	3,087
Cost of inventories recognised as an expense	109,838	88,059
Minimum lease payment under operating lease in respect of property	1,144	833

12. DIVIDENDS

	2012 US$'000	2011 US$'000
Dividend paid		
Dividend recognised as distribution during the year:		
2012 Interim - US$0.00645 (2011: 2011 interim dividend US$0.008) per share on 2,414,747,512 (2011: 1,287,865,340) shares	15,575	10,303
2011 Final - US$0.008 (2011: 2010 final dividend US$0.013) per share on 1,609,831,675 (2011: 1,157,865,340) shares	12,879	15,052
	28,454	25,355
Dividend proposed		
Dividend proposed during the year:		
2012 final - US$0.00774 (2011: 2011 final dividend of US$0.008) per share on 2,414,747,000 (2011: 1,609,831,000) shares	18,690	12,879

The Board of Directors have declared a final dividend of US$0.00774 per ordinary share of par value of US$0.005 for the year ended 31 December 2012 (2011: US$0.008 per ordinary share of par value of US$0.005).

13. EARNINGS PER SHARE

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

	2012	2011
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	85,039	62,276

	Number of ordinary shares As at 31 December	
	2012	2011 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,414,747,512	2,373,362,642
Effect of dilutive potential ordinary shares on share options	-	4,236,499
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,414,747,512	2,377,599,141

The number of shares for the purpose of calculating basic and diluted earnings per share for both years has been adjusted to reflect the bonus issue (see note 28) effective in April 2012 and September 2011.

No diluted earnings per share is presented for the year ended 31 December 2012, as there is no potential ordinary share is issued during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 January 2011	2,730	195	2,827	1,697	1,243	76	8,768
Currency realignment	201	10	177	118	69	19	594
Acquired on acquisition of subsidiaries	1,948	-	816	23	71	53	2,911
Additions	-	-	230	1,337	219	555	2,341
Disposals	-	-	-	(66)	(19)	-	(85)
Transfer	20	-	-	-	-	(20)	-
At 31 December 2011	4,899	205	4,050	3,109	1,583	683	14,529
Currency realignment	12	-	13	8	4	3	40
Additions	-	-	866	579	170	2,130	3,745
Disposals	(6)	-	(160)	(23)	(34)	-	(223)
Transfer	16	-	-	-	-	(16)	-
At 31 December 2012	4,921	205	4,769	3,673	1,723	2,800	18,091
DEPRECIATION							
At 1 January 2011	1,336	195	2,272	846	837	-	5,486
Currency realignment	74	10	121	53	46	-	304
Provided for the year	208	-	250	438	176	-	1,072
Eliminated on disposals	-	-	-	(42)	(15)	-	(57)
At 31 December 2011	1,618	205	2,643	1,295	1,044	-	6,805
Currency realignment	4	-	8	4	3	-	19
Provided for the year	284	-	334	509	158	-	1,285
Eliminated on disposals	(3)	-	(143)	(10)	(31)	-	(187)
At 31 December 2012	1,903	205	2,842	1,798	1,174	-	7,922
CARRYING VALUES							
At 31 December 2012	3,018	-	1,927	1,875	549	2,800	10,169
At 31 December 2011	3,281	-	1,407	1,814	539	683	7,724

The property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	Over the shorter of the lease terms, or 4.75%
Leasehold improvement	Over the shorter of the lease terms, or 4.75%
Plant and machinery	9% - 18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

15. PREPAID LEASE PAYMENTS

	2012 US$'000	2011 US$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	4,519	4,612
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	79	79
Non-current asset	4,440	4,533
	4,519	4,612

16. INTEREST IN AN ASSOCIATE

	2012 US$'000	2011 US$'000
Cost of unlisted investments in an associate	1,687	1,687
Share of post-acquisition profits and other comprehensive income, net of dividends received	(514)	(382)
	1,173	1,305

As at 31 December 2012 and 2011, the details of the associate are as follows:

Name of associate	Place of establishment/ incorporation	Attributable equity interest held by the Group	Principal activities
Ophol Limited ("Ophol")	Hong Kong	24.49%	Investment holding and provision of agency service

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

	2012 US$'000	2011 US$'000
Total assets	4,792	5,329
Total liabilities	(2)	(2)
Net assets	4,790	5,327
Group's share of net assets of an associate	1,173	1,305

16. INTEREST IN AN ASSOCIATE - continued

	2012 US$'000	2011 US$'000
Turnover	244	535
Profit for the year	240	531
Other comprehensive income	9	8
Group's share of result of an associate for the year	59	130
Group's share of other comprehensive income of an associate	2	2

17. INTANGIBLE ASSETS

	Exclusive distribution rights US$'000 (Note a(i))	Exclusive agency right US$'000 (Note b)	Patent rights US$'000	Total US$'000
COST				
At 1 January 2011	716	7,403	-	8,119
Exchange adjustments	308	-	942	1,250
Acquired on acquisition of subsidiaries (note c)	6,896	-	23,498	30,394
At 31 December 2011	7,920	7,403	24,440	39,763
Exchange adjustments	24	-	60	84
Additions (note a(ii))	5,244	-	-	5,244
At 31 December 2012	13,188	7,403	24,500	45,091
AMORTISATION				
At 1 January 2011	699	2,052	-	2,751
Exchange adjustments	70	-	27	97
Charge for the year	1,272	740	1,075	3,087
At 31 December 2011	2,041	2,792	1,102	5,935
Exchange adjustments	5	-	4	9
Charge for the year	1,707	740	1,476	3,923
At 31 December 2012	3,753	3,532	2,582	9,867
CARRYING VALUES				
At 31 December 2012	9,435	3,871	21,918	35,224
At 31 December 2011	5,879	4,611	23,338	33,828

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution right

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with 西藏諾迪康藥業服份有限公司 (Tibet Rhodiola Pharmaceutical Holding Co., Ltd.) ("Rhodiola") in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2011.

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimated the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000 (equivalent to approximately US$919,000).

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs to be incurred in clinical trials of US$919,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement (the "Agreement") with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Kangzhe Tianjin purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000 (equivalent to approximately US$5,244,000). Tianjin Kangzhe will exclusively promote and sell the Three Products in the PRC and Beijing Yadong will be responsible for the production of the Three Products as required by Tianjin Kangzhe and sell the Three Products exclusively to Tianjin Kangzhe.

The exclusive distribution rights are amortised over their expected useful lives of 20 years.

17. INTANGIBLE ASSETS - continued

(b) Exclusive agency right

On 26 April 2008, a transfer agreement was entered into between Ophol, Qingdao League and Pharma Stulln GmbH ("Pharma"), the supplier of Augentropfen Stulln Mono ("Stulln") in Germany in connection to the transfer of the exclusive agency right of Stulln in the PRC from Qingdao League to Ophol at nil consideration. After Ophol has obtained the exclusive agency right of Stulln in the PRC, Ophol agreed to transfer such exclusive agency right to the Group on condition that the 51% equity interest of Qingdao League owned by Kangzhe Shenzhen would be transferred to Qingdao Leatu Trading Ltd., a company which has common shareholder with Ophol under the sale and purchase agreement. On 15 July 2008, the Group entered into a supplementary agreement with Ophol and Pharma in connection to the transfer of exclusive agency right of Stulln, from Ophol to CMS Pharmaceutical Agency, a wholly-owned subsidiary of the Company, at a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000). CMS Pharmaceutical Agency will pay annually of RMB6,000,000 (equivalent to approximately US$878,000) to Ophol over the next ten years to settle the consideration. The directors of the Group recognised the payable as a deferred consideration (see note 26) in the amount of US$6,775,000, which represents the present value of the annual consideration of US$878,000 over next 10 years discounted at 5%. CMS Pharmaceutical Agency has replaced Qingdao League as the exclusive agent of Stulln for Pharma in the PRC from 1 August 2008 to 31 July 2018.

The expected useful life of the exclusive agency right is 10 years.

(c) Acquisition of exclusive distribution rights and patent rights

The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Kangzhe Guangming on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cashflows derived from the intangible assets for the remaining term of the distribution rights.

As at the acquisition date, the major patent rights owned by Kangzhe Tianjin, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to US$21,035,000 and US$1,264,000, respectively and the exclusive distribution rights owned by Kangzhe Tianjin amounted to US$6,002,000. The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to US$894,000 and US$1,199,000, respectively through the acquisition of Kangzhe Guangming.

The expected useful lives of the exclusive distribution rights and patent rights are ranging from 1 year to 17 years.

18. GOODWILL

	US$'000
At 1 January 2011	379
Arising on acquisition of subsidiaries (note 33)	178,255
At 31 December 2011 and 31 December 2012	178,634

For the purposes of impairment testing, the entire amount of goodwill has been allocated to three CGUs, representing three subsidiaries, namely Kangzhe Tianjin, Kangzhe Guangming and Sky United Trading Limited ("Sky United"). Kangzhe Tianjin and Sky United are engaged in trading of drugs. Kangzhe Guangming is engaged in production of medicines. The relevant intangible assets (excluding exclusive agency right) are allocated to the CGUs. The carrying amounts of goodwill and relevant intangible assets (excluding exclusive agency right) as at 31 December 2012 and 2011 allocated to these units are as follows:

	Goodwill		Intangible assets	
	2012	2011	2012	2011
	US$'000	US$'000	US$'000	US$'000
Kangzhe Tianjin	176,978	176,978	29,471	27,173
Kangzhe Guangming	1,277	1,277	1,882	2,044
Sky United	379	379	-	-
	178,634	178,634	31,353	29,217

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

Kangzhe Tianjin

At 31 December 2012, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 10% (2011: 10%). Kangzhe Tianjin's cash flows beyond the third-year period are extrapolated using a steady growth rate ranging from 0% to 10% (2011: 0% to 8%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Kangzhe Guangming

At 31 December 2012, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 10% (2011: 10%). For impairment review purpose, the cash flow projection was extrapolated for ten years based on the assumption that a growth rate of 10% (2011: 10%) is expected after the third year. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Due to the synergetic effect from business combination, management of the Group believes that the growth rate is reasonable.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2012 US$'000	2011 US$'000
Listed investments		
Equity securities listed in Shanghai Stock Exchange	16,374	-

The investment is denominated in RMB and its fair value is based on the quoted market prices. During the year ended 31 December 2012, change in fair value of US$2,718,000 was recognised in other comprehensive income.

20. DEFERRED TAX

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

	Unrealised profits on inventories US$'000	Undistributed profits of PRC subsidiary US$'000	Fair value adjustments to intangible assets acquired in business combinations US$'000	Fair value gain on available-for-sale investments US$'000	Others (note) US$'000	Total US$'000
At 1 January 2011	4,331	(2,123)	-	-	100	2,308
Acquisitions	-	-	(2,433)	-	-	(2,433)
Credit (charge) to profit or loss for the year (note 10)	268	(191)	248	-	(16)	309
Exchange differences	-	-	(90)	-	5	(85)
At 31 December 2011	4,599	(2,314)	(2,275)	-	89	99
Credit (charge) to profit or loss for the year (note 10)	(1,697)	(98)	325	-	(32)	(1,502)
Charge to other comprehensive income for the year	-	-	-	(631)	-	(631)
Exchange differences	-	-	(5)	(1)	-	(6)
At 31 December 2012	2,902	(2,412)	(1,955)	(632)	57	(2,040)

Note: These mainly represent the deferred tax assets recognised in relation to impairment loss on plant and machinery used for production of medicines for the year ended 31 December 2009.

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

	2012 US$'000	2011 US$'000
Deferred tax assets	2,959	4,688
Deferred tax liabilities	(4,999)	(4,589)
	(2,040)	99

20. DEFERRED TAX - continued

At 31 December 2012, the Group has unused tax losses of approximately US$3,062,000 (2011: US$2,744,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2012 are tax losses of approximately US$546,000 (2011: US$1,349,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2012, tax losses of approximately US$912,000 (2011: Nil) was expired.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of Kangzhe Shenzhen amounting to US$48,240,000 (2011: US$46,280,000). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of other PRC subsidiaries amounting to US$69,124,000 (2011: US$38,305,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. INVENTORIES

	2012	2011
	US$'000	US$'000
Raw materials	718	564
Work in progress	300	127
Finished goods	14,470	20,349
	15,488	21,040

22. TRADE AND OTHER RECEIVABLES

	2012	2011
	US$'000	US$'000
Trade receivables	50,536	40,636
Less: Allowance for bad and doubtful debts	(191)	(331)
	50,345	40,305
Bills receivables	28,714	23,573
Purchase prepayment	5,721	2,229
Other receivables and deposits	8,111	6,903
Total trade and other receivables	92,891	73,010

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months was allowed to some selected customers.

22. TRADE AND OTHER RECEIVABLES - continued

An aging analysis of the trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

	2012	2011
	US$'000	US$'000
0 - 90 days	47,772	37,054
91 - 365 days	2,480	3,239
Over 365 days	93	12
	50,345	40,305

The bills receivables of the Group are of the age within six months at the end of the reporting period.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$5,125,000 (2011: US$6,400,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2012	2011
	US$'000	US$'000
0 - 90 days	3,492	3,340
91 - 365 days	1,540	3,053
Over 365 days	93	7
	5,125	6,400

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2012	2011
	US$'000	US$'000
Balance at beginning of the reporting period	331	215
(Reversal of) impairment losses recognised on receivables	(134)	107
Amount written off as uncollectible	(7)	(5)
Currency realignment	1	14
Balance at end of the reporting period	191	331

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$191,000 (2011: US$331,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

23. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.50% to 5.55% (2011: 0.50% to 4.20%) per annum.

The pledged bank deposits amounting to US$73,261,000 (2011: US$39,471,000) represent deposits pledged to banks to secure the issuance of letters of credit. Therefore the pledged bank deposits are classified as current assets.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2012	2011
	US$'000	US$'000
US$	108	99
Euro ("EURO")	15	15
Hong Kong dollars ("HK$")	15	15

24. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting period as follows:

	2012	2011
	US$'000	US$'000
0 - 90 days	9,212	10,276
91 - 365 days	324	322
Over 365 days	106	95
	9,642	10,693
Payroll and welfare payables	5,825	4,643
Other tax payables	1,555	3,192
Other payables and accruals	8,153	9,882
	25,175	28,410

The credit period on purchases of goods is ranging from 0 to 120 days.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2012	2011
	US$'000	US$'000
EURO	-	695

25. SECURED BANK BORROWINGS

	2012	2011
	US$'000	US$'000
Advanced from banks on discounted bills receivables with recourse - repayable within one year	64,845	39,994

As at 31 December 2012, the Group discounted bills receivable of US$64,845,000 (2011: US$39,994,000) to banks for cash proceeds of US$64,845,000 (2011: US$39,994,000). If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. The receivables are arising from intra-group transactions which have then been fully eliminated on consolidation. The borrowings carried fixed interest at a range from 3.25% to 3.38% (2011: 1.98% to 3.04%) per annum.

Included in bank borrowings are the following amounts denominated in currencies other than functional currencies of the relevant group entities:

	2012	2011
	US$'000	US$'000
US$	-	24,270
RMB	64,845	15,724

26. DEFERRED CONSIDERATION PAYABLES

	2012	2011
	US$'000	US$'000
Non-current	3,357	4,121
Current	812	1,147
	4,169	5,268

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which has become the associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000) (see note 17(b)). The consideration is payable annually of RMB6,000,000 (equivalent to approximately US$878,000) for 10 years commencing on 26 April 2008. The present value of the discounted consideration determined based on a discount rate of 5% amounting to US$6,775,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2012, the carrying value amounting to US$4,103,000 (2011: US$5,135,000) is included in deferred consideration payables.

The remaining deferred consideration payables represented consideration for the acquisition of an associate, Ophol.

27. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative under hedge accounting

	2012	2011
	US$'000	US$'000
Cash flow hedges		
- Foreign currency forward contracts	-	645

At 31 December 2011, the Group had the following foreign currency forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to US dollar interest and principal payments of its US dollar bank borrowings. The derivative financial instruments were expired during the year.

The terms of the foreign currency forward contracts had been negotiated to match the terms of the respective designated hedged items. Major terms of the foreign currency forward contracts were as follows:

At 31 December 2011

Notional amount	Maturity	Exchange rates
Buy US$11,506,000	13 January 2012	US$1: RMB6.470
Buy US$12,764,000	27 February 2012	US$1: RMB6.444

28. SHARE CAPITAL

	Number of shares	Amount
	'000	US$'000
Authorised share capital:		
At 31 December 2011 and 2012	20,000,000	100,000
Issued and fully paid:		
At 1 January 2011	1,143,691	5,718
Exercise of share options (note a)	14,174	71
Issue of shares in consideration of acquisition of a subsidiary (note b)	130,000	650
Bonus issue (note c)	321,966	1,610
At 31 December 2011	1,609,831	8,049
Bonus issue (note d)	804,916	4,025
At 31 December 2012	2,414,747	12,074

28. SHARE CAPITAL - continued

Notes:

(a) On 7 March 2011, Mr. Chen Hong Bing ("Mr. Chen"), a director and shareholder of the Company, exercised the share options of 14,173,900 shares at an exercise price of GBP0.069 per share (equivalent to US$0.11 per share). The closing price of the Company's shares at dates on which the options were exercised was HK$6.79.

(b) On 19 April 2011, pursuant to a share purchase agreement entered into on 3 April 2011, the Company issued 130,000,000 new ordinary shares of the Company with a par value of US$0.005 each as part of the consideration for the acquisition of 100% equity interest in Great Move from an independent third party, Glitter Long Limited (see note 33(a)). The fair value of the consideration in the form of 130,000,000 ordinary shares of the Company was determined using the market price of the ordinary shares at the date of acquisition that is HK$8.58 (equivalent to US$1.103) per share.

(c) On 28 September 2011, the bonus issue had been distributed on the basis of 1 bonus share for every 4 shares held. Upon the exercise of the bonus issue, the bonus issue was credited as fully paid by way of capitalisation of an amount in the share premium account. Accordingly, 321,966,335 bonus shares were issued under the bonus issue and the new ordinary shares were calculated based on the par value of US$0.005 each.

(d) On 27 April 2012, the bonus issue has been distributed on the basis of 1 bonus share for every 2 shares held. Upon the exercise of the bonus issue, the bonus issue was credited as fully paid by way of capitalisation of an amount in the share premium account. Accordingly, 804,915,838 bonus shares were issued under the bonus issue.

All the shares which were issued by the Company during the year ended 31 December 2012 and 2011 rank pari passu with each other in all respects.

29. SHARE OPTIONS

The Company granted share options of 708,695 shares with an exercise price of GBP1.38 per share on 26 June 2007. These options were granted to Evolution Securities China Limited ("Evolution"), the underwriters of the Company on the Company's initial public offering on AIM, in exchange for a payment of GBP1.00 from Evolution to the Company. These options are exercisable over five years which is vested on 26 June 2007 and will expire on 25 June 2012. The estimated fair value per share of these options is GBP0.4019 (equivalent to US$0.8046) with a total fair value of US$570,000.

On 9 March 2009, Mr. Chen, a director of the Company, acquired the share options of 708,695 shares from Evolution.

On 28 June 2010, pursuant to the terms of the share options, the exercisable shares and exercise price had been adjusted to 14,173,900 share and GBP0.069 per share respectively to reflect the share sub-division effective on 28 June 2010 and the share option had been fully exercised on 7 March 2011.

30. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Kangzhe Shenzhen granted by Mr. Lam Kong, a director and former shareholder of Kangzhe Shenzhen, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Kangzhe Shenzhen to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Kangzhe Shenzhen's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired additional interest in Sky United. An amount of US$2,221,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012	2011
	US$'000	US$'000
Financial assets		
Loans and receivable (including cash and cash equivalents)	259,482	201,255
Available-for-sale investments	16,374	-
Financial liabilities		
Derivative instruments in designated hedge accounting relationship	-	(645)
Others financial liabilities measured at amortised cost	(82,099)	(59,790)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, deferred consideration payables and derivative financial instruments. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price 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.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk

Interest rate risk

The Group's fair value interest rate risk is the risk that the fair value of a fixed rate financial instrument will fluctuate because of changes in market interest rates.

Currency risk

Some subsidiaries of the Company have foreign currency purchases, which also expose the Group to foreign currency risk. Approximately 21.3% (2011: 31.5%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The Group entered into appropriate hedging instruments, mentioned in note 27 to hedge against the potential currency risk arising from US$ denominated bank borrowings. The Group reviewed the continuing effectiveness of hedging instruments at least at the end of each reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. It is the Group's policy to negotiate the terms of the hedged derivatives to match the terms of the hedged item to maximise hedged effectiveness (see note 27 for details).

The carrying amounts of the Group's foreign currency denominated monetary assets (representing bank balances) and monetary liabilities (that include trade and other payables and bank borrowings but do not include any hedging instruments) at the reporting date are as follows:

	Assets		Liabilities	
	2012	2011	2012	2011
	US$'000	US$'000	US$'000	US$'000
US$	108	99	-	24,270
EURO	15	15	-	695
HK$	15	15	-	-
RMB	-	-	64,845	15,724

Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Currency risk - continued

The Group is mainly exposed to currency risk of the US$, EURO and RMB. The following table details the Group's sensitivity to a 1% (2011: 1%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% (2011: 1%) change in foreign currency rates. The sensitivity analysis includes bank balances, trade and other payables and bank borrowings of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 1% (2011: 1%) against the relevant foreign currencies. If there is a 1% (2011: 1%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the result for the year:

	2012	2011
	US$'000	US$'000
RMB (as functional currency of the relevant group entities) against US$	(1)	242
RMB (as functional currency of the relevant group entities) against EURO	-	7
HK$ (as functional currency of the relevant group entities) against RMB	648	157

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Other price risk

The Group's available-for-sale investments in listed securities are measured at fair value at each reporting date with reference to the market share prices. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements and take appropriate actions when it is required. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the Shanghai Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. As at 31 December 2012, if the prices of the respective equity instruments had been 5% higher/lower, investment valuation reserve would increase/decrease by US$819,000 as a result of the changes in fair value of available-for-sale investments.

The Group was also exposed to other price risk through its investments in derivative financial instruments. The Group's other price risk is mainly concentrated on the foreign exchange forward contracts entered for the year ended 31 December 2011.

The sensitivity analyses have been determined based on the exposure to other price risks for derivative at the reporting date. If the forward rate of the foreign exchange forward contracts had been 5% higher/lower and all other variables were held constant, the fair value changes which deferred in equity as hedging reserve for the year ended 31 December 2011 would increase/decrease by US$1,214,000.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. 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 of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group 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 current interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the interest rate existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2012
	%	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2012						
Trade and other payables	-	13,085	-	-	13,085	13,085
Deferred consideration payables	5.00	812	3,815	239	4,866	4,169
Fixed interest rate borrowings	3.31	64,845	-	-	64,845	64,845
		78,742	3,815	239	82,796	82,099
Derivatives - net settlement						
Foreign currency forward contracts	-	-	-	-	-	-

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2011						
Trade and other payables	-	14,528	-	-	14,528	14,528
Deferred consideration payables	5.00	1,147	3,879	510	5,536	5,268
Fixed interest rate borrowings	2.32	39,994	-	-	39,994	39,994
		55,669	3,879	510	60,058	59,790
Derivatives - net settlement						
Foreign currency forward contracts	-	645	-	-	645	645

Fair value

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

- the fair value of financial assets that are traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of derivative instruments is calculated using discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow.

The carrying amounts of financial assets and liabilities carried at amortised cost approximate to their respective fair values.

32. 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 2 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).

	31 December 2012		31 December 2011	
	Level 1	Level 2	Level 1	Level 2
	US$'000	US$'000	US$'000	US$'000
Financial assets at FVTPL				
Derivative financial instruments	-	-	-	645
Available-for-sale financial assets				
Listed equity securities	16,374	-	-	-

There were no transfers between Level 1 and 2 for the year ended 31 December 2012 and 2011.

33. ACQUISITION OF SUBSIDIARIES

(a) On 3 April 2011, the Group acquired an 100% interest in Great Move from an independent third party. Great Move is an investment holding company. The principal investment of Great Move was 100% equity interest in Kangzhe Tianjin which was principally engaged in marketing, promotion and sale of prescription pharmaceutical products through network of agents/distributors and was acquired with the objective of improving the Group's product portfolios and sales and promotion network.

Consideration transferred

	US$'000
Cash	62,703
Shares of the Company (note 1)	143,353
Total	206,056

Note 1: The vendor undertakes to the Group that it will not, and shall procure that those persons to whom the consideration shares are allotted and issued will not, at any time during a period of six months from the acquisition date, dispose of or encumber any of consideration shares without the prior written consent of the Company.

33. ACQUISITION OF SUBSIDIARIES - continued

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	US$'000
Property, plant and equipment	69
Intangible assets	28,301
Bank balances and cash	12,673
Trade and other receivables	6,634
Inventories	1,673
Trade and other payables	(5,973)
Deferred consideration payable (note 2)	(11,439)
Deferred tax liabilities	(2,160)
Tax payables	(700)
	29,078

Note 2: The amount represented the outstanding deferred consideration payable for acquisition of intangible assets. The amount had been fully settled during the year ended 31 December 2011.

The fair value of trade and other receivables at the date of acquisition was equal to the gross contractual amounts of those trade and other receivables acquired at the date of acquisition.

Goodwill arising on acquisition

	US$'000
Consideration transferred	206,056
Less: fair value of identifiable net assets acquired	(29,078)
Goodwill arising on acquisition	176,978

Goodwill arose in the acquisition of Great Move mainly because of the promotion and sales network and the top management under the business model of Great Move that would bring along synergistic effect through the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and the assembled workforce of Great Move.

These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	US$'000
Consideration paid in cash	62,703
Less: cash and cash equivalent balances acquired	(12,673)
	50,030

33. ACQUISITION OF SUBSIDIARIES - continued

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2011 was US$13,656,000 attributable to Great Move. Revenue for the year ended 31 December 2011 included US$36,308,000 generated from Great Move.

Had the acquisition of Great Move been completed at 1 January 2011, total group revenue for the year ended 31 December 2011 would have been US$221 million, and profit for the year ended 31 December 2011 would have been US$65 million. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor was intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Great Move been acquired at the beginning of the current year, the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(b) On 30 April 2011, the Group acquired an 51% interest in Kangzhe Guangming from independent third party. Kangzhe Guangming is principally engaged in production and distribution of drugs and was acquired with the objective of improving the Group's product portfolios.

Consideration transferred

	US$'000
Cash	4,616

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	US$'000
Property, plant and equipment	2,842
Intangible assets	2,093
Prepaid lease payments	1,290
Bank balances and cash	4,642
Trade and other receivables	570
Inventories	1,068
Tax recoverable	116
Trade and other payables	(2,090)
Bank borrowings	(4,493)
Deferred tax liabilities	(273)
	5,765

33. ACQUISITION OF SUBSIDIARIES - continued

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables were expected to be collected.

	US$'000
Consideration transferred	4,616
Plus: non-controlling interests	2,426
Less: fair value of identifiable net assets acquired	(5,765)
Goodwill arising on acquisition	1,277

The non-controlling interest (49%) in Kangzhe Guangming recognised at the acquisition date was measured by reference to the share of the fair value of the identifiable assets acquired and the liabilities assumed which amounted to US$2,426,000.

Net cash inflow arising on acquisition

	US$'000
Consideration paid in cash	4,616
Less: cash and cash equivalent balances acquired	(4,642)
	(26)

The goodwill was attributable to the anticipated profitability arising from the distribution of the products of Kangzhe Guangming in the new markets and the future operating synergies from the combination. These benefits were not recognised separately from goodwill as they did not meet the recognition criteria for identifiable intangible assets.

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2011 was US$137,000 attributable to Kangzhe Guangming. Revenue for the year ended 31 December 2011 includes US$3,690,000 generated from Kangzhe Guangming.

Had the acquisition of Kangzhe Guangming been completed at 1 January 2011, the total group revenue for the year ended 31 December 2011 would have been US$212 million, and profit for the year ended 31 December 2011 would have been US$62 million. The proforma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor was intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Kangzhe Guangming been acquired at 1 January 2011, the directors had calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition consolidated financial statements.

34. OPERATING LEASE

The Group as lessee

The Group's total future minimum lease payments under non-cancellable operating lease in respect of property which fall due as follows:

	2012	2011
	US$'000	US$'000
Within one year	801	574
In the second to fifth years inclusive	113	326
	914	900

The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental.

35. CAPITAL COMMITMENTS

	2012	2011
	US$'000	US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	12,774	-

36. RELATED PARTY TRANSACTIONS

(a) Amount of approximately US$89,000 (2011: US$nil) included in trade and other receivables represented the amount due from a related company, Sunpharma GmbH ("Sunpharma"), a company in which Mr. Lam Kong, the director of the Company has beneficial and controlling interests.

(b) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2012	2011
			US$'000	US$'000
Ophol	Associate	Imputed interest	230	261
Sunpharma	Related company	Purchase of goods	151	-
Guangdong Lantai	Jointly controlled entity	Sales of goods	-	385

(c) The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 8.

37. RETIREMENT BENEFITS SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to US$1,493,000 (2011: US$1,003,000).

38. KEY EMPLOYEE BENEFIT SCHEME

The Key Employee Benefit Scheme (the "Scheme") was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the Scheme. A summary of some of the principal terms of the Scheme is set out in below.

(a) The purpose of the Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 year's services in the Group) for participation in the Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund.

38. KEY EMPLOYEE BENEFIT SCHEME - continued

During the year ended 31 December 2012, the Company contributed cash amounting to US$665,000 (2011: US$153,000) to the Fund and which were recognised as key employee benefit expenses in the profit or loss in the consolidated statement of comprehensive income.

39. SUBSIDIARIES OF THE COMPANY

As at 31 December 2012 and 31 December 2011, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (note 2)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital 31 December 2012	31 December 2011	Equity interest held by the Group 31 December 2012 Directly	Indirectly	31 December 2011 Directly	Indirectly	Principal activities
CMS International (note 1)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (sino-foreign equity joint venture)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Production of medicines
Kangzhe Pharmaceutical Technology (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (note 1)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Kangzhe Shenzhen (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Distribution and import of drugs and medical devices
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Kangzhe Changde (wholly-owned domestic enterprise)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Trading of drugs
CMS Pharmaceutical Agency	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move (note 1 & 3)	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited (note 3)	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Kangzhe Tianjin (note 3)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Trading of drugs
Kangzhe Guangming (note 4)	PRC	RMB18,370,000	RMB18,370,000	-	51%	-	51%	Production of medicines

Notes:

1. Being inactive subsidiaries.
2. None of the subsidiaries had issued any debt securities at the end of the year.
3. The subsidiaries were acquired on 3 April 2011 (Note 33(a)).
4. The subsidiary was acquired on 30 April 2011 (Note 33(b)).

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012	2011
	US$'000	US$'000
Non-current assets		
Investments in subsidiaries	10	10
Amount due from a subsidiary	277,844	277,529
	277,854	277,539
Current assets		
Amount due from a subsidiary	40,000	30,000
Bank balances and cash	21	19
	40,021	30,019
Current liabilities		
Amount due to a subsidiary	470	456
Accruals	206	205
	676	661
Net current assets	39,345	29,358
Total assets less current liabilities	317,199	306,897
Capital and reserves		
Share capital (see note 28)	12,074	8,049
Reserves	305,125	298,848
Total equity	317,199	306,897

Movement in reserves

	Share premium	Capital reserve	Share option reserve	Accumulated profits	Dividend reserve	Total
	US$'000	US$'000	US$'000 (note 29)	US$'000	US$'000	US$'000
Balance at 1 January 2011	126,491	1,078	570	10,992	14,868	153,999
Profit and total comprehensive income for the year	-	-	-	27,593	-	27,593
Issue of shares for exercise of share options (note 28)	1,518	-	-	-	-	1,518
Issue of shares in consideration for the acquisition of a subsidiary (note 28 and note 33(a))	142,703	-	-	-	-	142,703
Transfer of share option reserve on exercise of share option	570	-	(570)	-	-	-
Dividends paid	-	-	-	(10,487)	(14,868)	(25,355)
Dividends proposed	-	-	-	(12,879)	12,879	-
Bonus issue (note 28)	(1,610)	-	-	-	-	(1,610)
Balance at 31 December 2011	269,672	1,078	-	15,219	12,879	298,848
Profit and total comprehensive income for the year	-	-	-	38,756	-	38,756
Dividends paid	-	-	-	(15,575)	(12,879)	(28,454)
Dividends proposed	-	-	-	(18,690)	18,690	-
Bonus issue (note 28)	(4,025)	-	-	-	-	(4,025)
Balance at 31 December 2012	265,647	1,078	-	19,710	18,690	305,125

41. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group through its wholly-owned subsidiary, had entered into a property rights transfer agreement with an independent third party, Sinopharm Traditional Chinese Medicine Co., Ltd., to acquire 100% interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd., which is engaged in manufacture of GanFuLe, a traditional Chinese medicine, for a consideration of RMB81,100,000 (approximately US$12,903,000). The acquisition was completed on 28 February 2013. At the date of this report, the management of the Group is still in the process of determining the fair value of assets and liabilities of the acquiree.