盈天醫藥集團有限公司
WINTEAM PHARMACEUTICAL GROUP LIMITED

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT 2012

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. YANG Bin *(Managing Director)*

Non-executive Directors

Mr. SHE Lulin
Mr. LIU Cunzhou
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. FANG Shuting

COMPANY SECRETARY

Mr. HUEN Po Wah

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. FANG Shuting

REMUNERATION COMMITTEE

Mr. ZHOU Bajun *(Chairman)*
Mr. LIU Cunzhou
Mr. XIE Rong
Mr. FANG Shuting

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. YANG Bin
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. FANG Shuting

REGISTERED OFFICE

Rooms 2801-2805
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

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STOCK CODE

The shares of Winteam Pharmaceutical Group Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited (Foshan Branch)
China Merchants Bank Co.,Ltd. (Foshan Branch)
Guangdong Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.winteamgroup.com

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

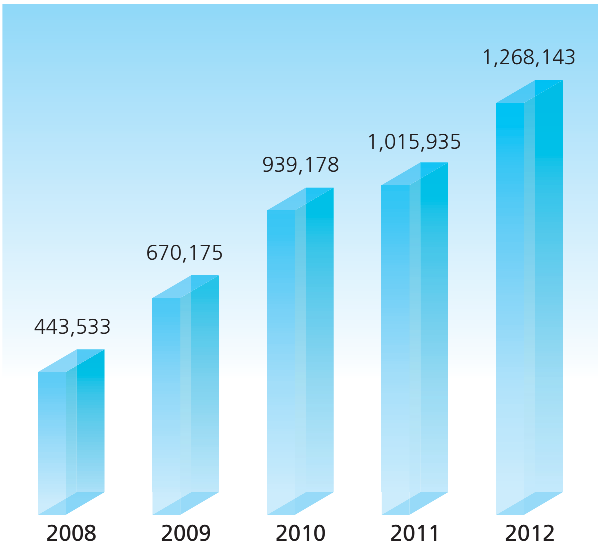
	2008 $'000	2009 $'000	2010 $'000	2011 $'000	**2012** **$'000**	2008-2012 Compound Annual Growth Rate
Results						
Turnover	443,533	670,175	939,178	1,015,935	**1,268,143**	30.04%
Gross profit	158,284	322,696	523,904	548,406	**693,228**	44.66%
Profit/(loss) from operations	54,783	95,786	119,061	102,144	**289,815**	51.66%
Profit/(loss) before taxation	53,405	90,465	115,230	94,455	**265,984**	49.39%
Profit attributable to the shareholders of the Company	20,330	44,054	60,925	72,072	**207,134**	78.66%
Profitability						
Gross profit margin	35.69%	48.15%	55.78%	53.98%	**54.66%**	
Operating Profit Ratio	12.35%	14.29%	12.68%	10.05%	**22.85%**	
Net profit margin	10.93%	10.18%	9.17%	7.26%	**16.77%**	
Earnings/(loss) per share						
Basic & Diluted	2.45 cents	2.82 cents	3.53 cents	4.04 cents	**11.61 cents**	47.54%
Financial position						
Total assets	703,721	1,202,934	1,406,176	1,622,748	**1,916,820**	
Total equity attributable to equity shareholders of the Company	359,304	686,114	835,659	948,738	**1,022,032**	
Total liabilities	148,607	331,070	556,992	658,433	**873,729**	
Cash and cash equivalents	147,764	211,462	120,012	42,354	**57,050**	
Debt Asset ratio	21.12%	27.52%	39.61%	40.58%	**45.58%**	

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

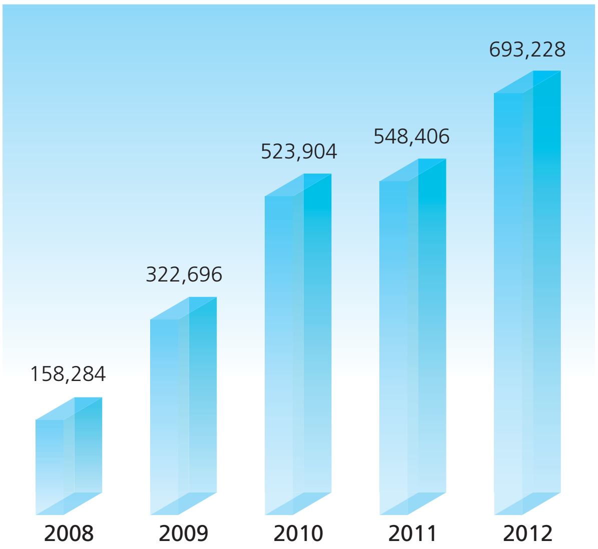
TURNOVER
$'000

CAGR of 2011-2012
24.8%



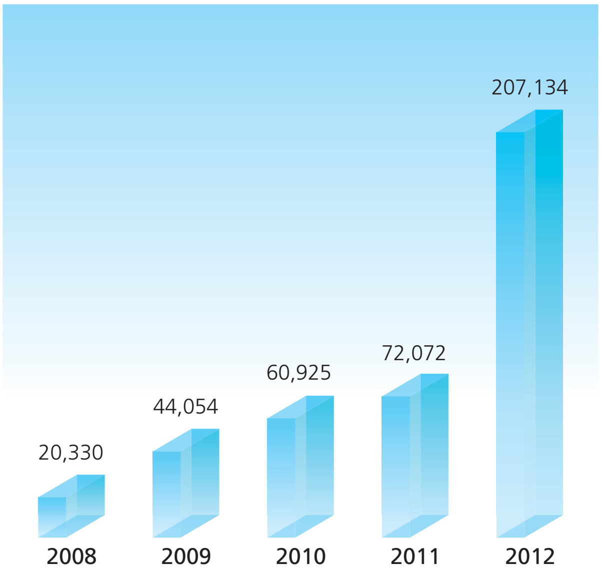
GROSS PROFIT
$'000

CAGR of 2011-2012
26.4%



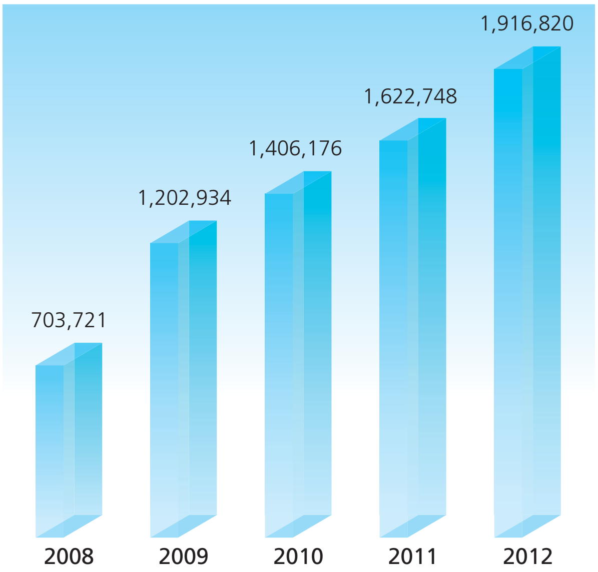
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY
$'000

CAGR of 2011-2012
187.4%



TOTAL ASSETS
$'000

CAGR of 2011-2012
18.1%



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholder,

I would like to express my gratitude to our shareholders and people from all circles for their continued attention and substantial support to the Group. On behalf of the board (the "Board") of directors (the "Directors") of Winteam Pharmaceutical Group Limited (the "Company"), I am pleased to present the audited Annual Report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012:

In retrospect, amid the complex and changing external environment in 2012, the Group remained steadfast in pursuing its strategic objectives and achieved rapid growth in results through the concerted efforts of all staff, with encouraging performance seen in all aspects of operation.

COLLECTIVE EFFORTS CONTRIBUTED TO OUTSTANDING RESULTS

In 2012, the Group's revenue was HK$1,268,143,000, representing an increase of 24.8% compared to HK$1,015,935,000 in the corresponding period of last year; profit attributable to shareholders reached a record HK$207,134,000, representing a significant growth of 187.4% compared with HK$72,072,000 in the corresponding period of last year. Earnings per share for the year also increased to HK$11.61 cents from HK$4.04 cents from last year, representing an increase of 187.4%.

The Group is committed to becoming the most influential TCM company in China. Our core strategies for the Group's long-term development are underpinned by the aim of promoting our legendary brands as well as inheriting the essences of over 400 years of history in Lingnan TCM culture.

In 2012, the Group further focused on product, market and management optimizations and continued our brand promotion strategy to optimize resources available to our products. The well-known brand names of the Group, including Dezhong, Foshan and Feng Liao Xing, achieved comprehensive improvements in their brand values. Accommodating to the direction of the State's medical reform, the Group extended our sales coverage to downstream end-markets and actively established sales teams at primary levels. We achieved full penetration of commercial distribution and end-market promotions to county, village and town levels. By building a sales force of around 300 persons focusing on primary markets, we established relatively comprehensive sales networks in key regions across the nation, which provide a broad platform for promoting the Group's products. The Group continued to further deepen sales resource integration at end-markets and strengthened refined market division management, thereby achieving resource sharing among end-markets and boosting personnel structure optimization to clearly delineate the duties of each sales team and ensure our swift response to market changes. The Group also initiated researches on industry policies, participated in policy communications with the government in tendering and pricing efforts, and supported the policy direction of promoting an inexpensive drugs list, which we leveraged on the specialized features of the Group's products to incorporate policy advantages. Under these collective efforts, in 2012, the Group achieved a satisfactory growth in the sales of its various key products, including Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Feng Liao Xing Medicinal Wine (馮了性藥酒) and Sheng Tong Ping (聖通平).

Yu Ping Feng Granule is our exclusive product on the 2012 National Essential Drugs List ("New Edition of National Essential Drugs List") and the National Drugs List for Basic Medical Insurance. It is a TCM for strengthening body resistance and enhancing immunity of the human body. Target markets of Yu Ping Feng Granule include second and third level hospitals in tier-1 and tier-2 cities ("ranked hospitals"). At the end of 2012, Yu Ping Feng Granule was adopted by about 2,200 ranked hospitals with extended coverage in primary medical institutions and retail pharmacies. The Group developed expert networks for Yu Ping Feng Granule in various professional domains, such as dermatology, otorhinolaryngology, pediatrics and TCM, which helped to introduce the drug into treatments of the relevant domains and facilitated the wide recognition of its efficacies among medical workers. As the implementation of the National Essential Drugs System accelerated, Yu Ping Feng Granule won tenders with satisfactory pricing in over 20 provinces across the nation in tender procurements for essential drugs of primary health care institutions in 2012. At the end of 2012, the Group successfully extended coverage to about 14,000 primary medical institutions, forming a firm foundation for the rapid growth of Yu Ping Feng Granule. In 2012, revenue from sale of Yu Ping Feng Granule amounted to HK$205,649,000, representing a year-on-year growth of 57.9%.

Bi Yan Kang Tablet is another exclusive product of the Group on the New Edition of National Essential Drugs List and the National Drugs List for Basic Medical Insurance, targeting retail drug stores and primary medical institution markets. In the second half of 2012, the Group adopted the strategy of replacing the original 50 tablets/pack with 72 tablets/pack to better serve the retail drug store market, while strategic partnership agreements were entered into with premium chain pharmacies throughout different provinces and cities in China, which allowed the new packing of Bi Yan Kang Tablet to be displayed in the windows of more than 90% pharmacies across the country and made it available in end-market drug stores nationwide. These helped secure a reasonable growth of Bi Yan Kang Tablet in the retail market. The successful change in package size of Bi Yan Kang Tablet was well reflected by its sales contribution in the second half of 2012. The accelerated implementation of the National Essential Drugs System also provided great opportunities for expanding the coverage of Bi Yan Kang Tablet in primary medical institutions; at the end of 2012, the coverage of Bi Yan Kang Tablet extended to about 700 ranked hospitals and about 20,000 primary medical institutions, providing a new momentum of growth for Bi Yan Kang Tablet in new medical markets. In 2012, revenue from sale of Bi Yan Kang Tablet amounted to HK$272,224,000, representing a year-on-year growth of 23.5%.

Feng Liao Xing Medicinal Wine is a popular TCM of the Group for rheumatic diseases and bone setting with a century of legacy; its sales are mainly focused in Southern China and Central China areas. Through streamlining and consolidating channel resources, the Group fully extended sales coverage to county, village and town levels and made steady progress in exploring the primary medical institution market. In 2012, revenue from sale of Feng Liao Xing Medicinal Wine reached HK$106,677,000, representing a year-on-year growth of 28.8%.

Nifedipine Sustained-release Tablet (Sheng Tong Ping) is a cerebro-cardiovascular drug of the Group, mainly sold to ranked hospitals in Southern China and Eastern China. Sheng Tong Ping won the tender of essential drugs for Guangdong Province in 2012, allowing the Group's pursuit of making further market gains for this product in Guangdong Province. In 2012, revenue from sale of Sheng Tong Ping reached HK$109,128,000, representing a year-on-year growth of 17.7%.

The significant increase in sales volume of the above core products represents the results of the Group's marketing integration efforts over the past few years, which is also a testimonial of our success in utilizing sales models of "professional approach in promoting prescription drugs" and "combining OTC brand promotion with end-market marketing" through the Group's internal sales team of about 1,500 persons. In addition, in 2012, the Group also explored and adopted the "refined merchandizing model for prescription drugs" in promoting some of our exclusive products, such as **Bai Ling Tablet** (白靈片) (exclusive drug for Basic Medical Insurance), **Gandakang Tablet** (肝達康片) (exclusive drug for Basic Medical Insurance), **Rujiekang Tablet** (乳結康片) and **Pseudophedrine Capsule** (非索非那定膠囊). Our proactive and effective management throughout all stages of sales flow also reaped significant sales results for these products.

UPGRADE AND INNOVATION IN PRODUCTION AND R&D

In 2012, the Group completed the establishment of the Gaoming branch company of Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong"). In December 2012, Dezhong Gaoming ("Dezhong Gaoming") has passed the newly amended Good Manufacturing Practice for Pharmaceutical Products (the "New GMP") certification and formally commenced production; it completed the upgrade and new generation deployment in equipment, techniques and processes for pre-processing and extraction of TCM, becoming a domestic base for modern TCM extraction and herbal slice production equipped with leading technology and advanced management systems. This signifies the significant improvement in economies of scale of the Group. Meanwhile, Dezhong's seven major preparations were successfully approved under the New GMP certification, making it the first pharmaceutical company in Foshan City to have obtained the New GMP certification. Other subsidiaries of the Group have also begun their GMP certification applications to strengthen the quality enhancement of our products.

In terms of R&D, the Group closely followed our development strategies under the guidelines of the relevant industry policies issued by the State, and made a series of breakthroughs in modern TCM and new pharmaceutical preparations, while a sustained-release preparation R&D platform was established to leading national standards. These new TCM projects and R&D on new pharmaceutical preparations will complement the Group's strengths and future development momentum in the pharmaceutical industry.

PURSUING BRIGHT FUTURE AND REALIZING OUR DREAM

In the State's "12th five-year" plan, the year 2013 is the most crucial year. It is expected that implementation of plans related to the pharmaceutical sector, including reforms in pharmaceutical industry, TCM industry, drug safety, biological industry, and medical hygiene system, will be going into full force during the year. Specific policies that encourage the development of the sector are expected to be issued at State and provincial levels, which will provide better support for indigenous innovation in pharmaceutical sector, production technique, and management and drug safety enhancements. In the meantime, the State will continue to increase investments in people's livelihood such as improving basic medical protection, perfecting the National Essential Drugs System and expanding the scope for implementation of the Essential Drugs System. For example, the Ministry of Health issued the New Edition of National Essential Drugs List on 15 March 2013, which clearly stated that it is necessary to optimize the mechanism of essential drugs tenders, encouraged corporations to improve the quality of essential drugs and clarified that the governmental and primary health care institutions should be fully equipped with and use essential drugs and determined the proportion of essential drugs for use in second and third class hospitals. Meanwhile, the State will further promote implementation of the "12th Five-Year" Plan for the pharmaceutical industry in 2013. The implementation of these policies and initiatives creates great development opportunities for the Group.

The Group foresees challenges in the coming 2013, particularly in the following areas: firstly, as TCM industry grows and people become more aware of health issues, demand for TCM materials has been on a sustained trend of growth in recent years; however, due to climate restrictions and information delays in market demands, as well as limited resources available, the supply of TCM materials could not be precisely predicted and thus frequent fluctuations in prices have become commonplace, which increases the difficulty in product cost control; secondly, following the issue of the New Edition of National Essential Drugs List, the related complementary policies need to be further optimized, while the State is also planning to re-price TCM products in 2013, all these imply more uncertainties for the Group's sales growth; thirdly, although various provinces are continually exploring and perfecting the tendering systems for drugs, there is yet to have a uniformed tendering policy and solution for drugs to be adopted nationwide that is deemed acceptable by all stakeholders, which could hamper the business development of the Group; and fourthly, the details of public hospital reform have not yet been clearly published to be in line with the progress in deepening of the New Medical Reform, which will increase the uncertainties surrounding the Group's development of sales business in hospitals.

In February 2013, the Group officially merged with China National Pharmaceutical Group Corporation ("CNPGC"), the largest state-owned business group in the medical healthcare industry directly under the management of State-owned Assets Supervision and Administration Commission (SASAC), after Sinopharm Group Hongkong Co., Limited ("Sinopharm Hong Kong", or the "Offeror") (a wholly-owned subsidiary of CNPGC) acquired a controlling stake in the Company. This provided the Group with more extensive industry resources to aspire a bigger development blueprint. By seizing development opportunities in line with the industry policies of the State, the Group will consolidate its advantages and resources to enter a breakthrough stage of accelerated development in full speed. Joining hands with China National Corp. of Traditional & Herbal Medicine (中國藥材公司), a wholly-owned subsidiary of CNPGC, the Group will gain a stronger momentum of growth through consolidating a value-chain of healthcare, exploring resources in medicial ingredients, expanding into healthcare industry, and promoting the historical brands of traditional Chinese medicine. This will allow us to play an instrumental role in the general development of China's health industry.

In 2013, the Group will focus on the objectives and missions set forth in the five-year plan. We will seek to capture development opportunities, overcome challenges and build upon the foundation of our existing product portfolio to improve the corporate management and business operation models of the Group; by optimizing production resources and carrying out innovation engineering and merger restructuring, our overall core competitiveness can be enhanced through scale expansion and profitability improvement, in order to realize rapid development of the Group.

With the concerted efforts of our staff, the Group undertakes to continue expanding our business and pursuing our dreams in 2013. On behalf of the Group, I hereby express my sincere gratitude to former directors of the Company for their efforts and contribution over the years and wish to have continued support and trust of our shareholders and people from all circles going forward, as it is our firm belief that with the dedicated efforts of the Group as a whole, Winteam Pharmaceutical Group can unfold a new chapter of development that will become an important part of the history of China's TCM development.

WU Xian
Chairman

23 March 2013

Management Discussion and Analysis

GROUP OVERVIEW

The Group is a generic drugs manufacturing enterprise with excellent brands. It has a total of 327 products and 465 product specifications, 28 of which are national exclusive products, while 3 are State's protected Traditional Chinese Medicine (TCM). The Group has 53 products, including 73 product specifications being listed on the New Edition of National Essential Drugs List, 13 of which are chemical Chinese medicines, 40 of which are TCM, 2 of which are exclusive products, namely Bi Yan Kang Tablet (鼻炎康片) and Yu Ping Feng Granule (玉屏風顆粒) and 1 of which is exclusive product specification, An Gong Niu Huang Wan (1.5g) (安宮牛黃丸(1.5g)). The Group has 96 products being listed on the National Drugs List (Category A) for Basic Medical Insurance, and another 60 products being listed on the National Drugs List (Category B) for Basic Medical Insurance, among which Bi Yan Kang Tablet (鼻炎康片), Yu Ping Feng Granule (玉屏風顆粒), Gandakang Tablet (肝達康片), Bai Ling Tablet (白靈片) and Wuji Bai Feng Granule (烏雞白鳳顆粒) are exclusive products on the National Drugs List for Basic Medical Insurance. Furthermore, the Group has been advocating for TCM manufacturing for over 400 years, and is in possession of a range of TCM secret formulas, many of them are national famous products, such as Po Chai Pills (保濟丸), Da Huo Luo pills (大活絡丸), Shaolin Dieda Herbal Plaster (少林跌打止痛膏), Yuanjilin Herbal Tea (源吉林甘和茶), etc. The Group has accumulated extensive technical experience in the extraction of Chinese medicine, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills (大蜜丸) and enhancement of quality.

The Group has had 5 manufacturing bases in Foshan of Guangdong Province and Jining of Shandong Province, with an annual production capacity of 400 million packs of granules, 4 billion tablets, 200 million capsules, 14 million bottles of medical wine, and 100 million jabs of antibiotics and oncology powder for injection, as well as 20,000 tonnes of Chinese medicine preprocessing and extraction.

INDUSTRY OVERVIEW

New Edition of National Essential Drugs List

On 15 March 2013, the Ministry of Health of China issued the New Edition of National Essential Drugs List, which contains three parts, namely chemical and bio-drugs, TCM and TCM decoction pieces, 317 of which are chemical and bio-drugs and 203 of which are TCM, 520 drugs in total. Following the issue of the New Edition of National Essential Drugs List, related policies will be perfected, such as further optimizing the mechanism of essential drugs tenders and purchase, and the way how health care institutions use these essential drugs.

In respect of optimizing the mechanism of essential drugs tenders and purchase, the Ministry of Health clearly stated that it is necessary to optimize "two-envelope" tendering system with full assessment on the drugs quality and services and reputation of the manufacturers during the economic and technical standard assessment. Passing the new GMP certification will be a vital benchmark for quality assessment. While during the commercial standard assessment, comprehensive assessment will be made for drugs with obviously low tender price to avoid vicious competition. Priority will be given to the generic drugs reaching international standards and encourage corporations to improve the quality of essential drugs. The Group has been paying attention to the management of drug quality. Dezhong and Dezhong Gaoming have passed the new GMP certification and finished the research on the quality consistency evaluation for generic and novelty drugs for two generic drugs, namely Gaode and Sheng Tong Ping, which places the Group in a favorable position in essential drugs tenders and purchases.

In respect of the way that how essential drugs are stocked up and used among health care institutions, the Ministry of Health stated that it is necessary to accelerate the formulation of administrative measures for the use of essential drugs by health care institutions in each level and category, revise and optimize the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and motivate health care institutions in each level and category to gradually stock up and give priority in using essential drugs. It also clarified that the governmental and primary health care institutions should be fully equipped with and use essential drugs, reasonably determine the usage of essential drugs for second and third class hospitals, enhance the promotion and training for the Guideline for the Clinical Application and Prescription Catalogue of National Essential Drugs and promote the priority in reasonably using essential drugs. Upon implementing such policies, it is expected that the proportion and consumption of essential drugs will increase, especially for the second and third class hospitals. Thus, the introduction of the New Edition of National Essential Drugs List is favorable to the Group's market sales in essential drugs in future.

The "12th Five-Year" Plan for Pharmaceutical Industry

On 19 January 2012, the Ministry of Industry and Information Technology promulgated the "12th Five-Year Development Plan for Pharmaceutical Industry (《醫藥工業"十二五"發展規劃》)" while the State Council promulgated the "12th Five-Year Plan for National Drugs Safety (《國家藥品安全"十二五"規劃》)" on 20 January 2012. These two plans were set to create a more favorable environment for the pharmaceutical industry of China by implementing supportive policy during the period from 2011 to 2015 ("12th Five-Year"). The core idea of these plans is to require pharmaceutical enterprises to enhance the overall quality and technical standard of drugs; while government policy towards the pharmaceutical industry will focus on supporting those enterprises with quality advantage and scalable sales, with an aim to help improve China's medicine quality to meet or rise closer to international standard. Therefore, the Group has also made relevant arrangements, firstly is to carry out the "research on the quality consistency evaluation for generic and novelty drugs" Nifedipine Sustained-release Tablet (Sheng Tong Ping) (硝苯地平緩釋片(聖通平)) and Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪鈉(高德)), both of which are the core products of the Group. It is expected that in the coming year, the State Food and Drug Administration ("SDA") will approve and recognize that the quality and technology of these two medicines are consistent with novelty drugs. At such time, these two core products can apply for differential pricing. Products approved for differential pricing can be sold at a price higher than the unified price, which help expand their market share.

On 14 March 2012, the State Council promulgated the "Regulation and Implementation Plan for Deepening Medical and Health System Reformation during the 12th Five-year Plan Period (《"十二五"期間深化醫藥衛生體制改革規劃暨實施方案》)". The plan explicitly stated that the National Essential Drugs List will be further enhanced; the practice of marking up drugs prices in public hospital will be cancelled; the reformation of drugs production and circulation will be encouraged; and that the coverage of medical insurance will continue to be expanded. By 2015, all county-level public hospitals should have achieved the reformed target of that stage, and comprehensive reformation on urban public hospitals will be implemented in full. These measures could help to increase the sales of general and inexpensive drugs in ranked hospital and retail pharmacies, which will be beneficial to the Group as well.

Golden Age for the Chinese Medicine Industry

On 5 June 2012, the State Administration of Traditional Chinese Medicine promulgated the "12th Five-Year Plan for the Development of Chinese Medicine Industry (中醫藥事業發展"十二五"規劃)", which stated that the government will increase investment to include Chinese medicine into the insurance system as well as improving such system, such as to extend medical insurance coverage to qualified Chinese medical institutions, Chinese medical diagnosis and treatment, Chinese medicine and preparations, so as to build a foundation for the development of Chinese medicine industry. Chinese medical practitioners focus on curing illnesses fundamentally, recuperation and improving patient's living habit and physical functions. Chinese medicines are made from natural substance with minimal toxic side effect and drugs resistance, therefore particularly suitable for chronic diseases and specialty medicines, and the treatment costs are relatively low. As aging population in China has created huge demand for health care services and products, it will lead Chinese medicine industry into its golden age and open opportunities for the Group for sustainable development in the future.

National Essential Drugs Policy

The Ministry of Health issued the Key Health Task for 2012 on 2 February 2012, which emphasized that the task for this year is to further expand the scope of the National Essential Drugs System, and to formulate administrative measures for the use of essential drugs by health care institutions. It is also stated that the "Guideline for the Clinical Application of National Essential Drugs (國家基本藥物臨床應用指南)" and "National Essential Drugs Prescription Catalogue (國家基本藥物處方集)" will be revised. The Ministry also considered formulating incentive policy to promote the use of essential drugs, so as to motivate other health care institutions to gradually stock up and give priority in using essential drugs.

On 21 June 2012, Guangdong Province has completed its first tender procurement after the issuance of No. 56 Document for Tender Procurement of Essential Drugs (關於基本藥物招標採購的56號文件) by the State Council. Essential drugs tenders conducted in Guangdong Province will continue to adopt the "Anhui Model", which is to use "two-envelope" tendering (「雙信封」招標) system, purchase based on agreed price and volume, as well as sourcing from single supplier. The difference lays in that the Tender Procurement of Essential Drugs in Guangdong Province adopted the Inexpensive Essential Drugs List, which meant that drugs listed on the Inexpensive Drugs List would not adopt the "two-envelope" system but would be decided by quality and technology of the drugs. The highest score company would win the tender, which avoided vicious competition for low price drugs. Guangdong Province is the biggest sales region for the Group's pharmaceutical products which accounts for 40% of the total sales amount. 25 products and product specifications of the Group won tender in the recent Essential Drugs Tender in Guangdong Province, which is expected to expand our market shares in the hospitals in Guangdong Province, especially for Nifedipine Sustained-release Tablet (聖通平), a cerebro-cardiovascular drug being listed on the Inexpensive Drugs List.

Since the implementation of the Essential Drugs System, Guangdong Province is the first and the only province that proposes the use of an Inexpensive Essential Drugs List in the tender. Such Inexpensive Essential Drugs List has been adopted in the tender procedures of Jiangsu Province. The Group's products, including VC Yinqiao Tablet, Guifu Dihuang Wan, Hericium Erinaceus Tablets and Maren Wan, have been listed on the Inexpensive Drugs List of Jiangsu Province. The implementation of inexpensive drugs policy has created a favorable condition for the Group to explore the market and expand the market share for generic drugs.

Administrative Measures on the Clinical Use of Antibiotics

"Administrative Measures on the Clinical Use of Antibiotics (《抗菌藥物臨床應用管理辦法》)" has been duly implemented since 1 August 2012. The requirement to classify antibiotics into different grades has inevitably reduced the market of antibiotics, and the effect on our Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪鈉(高德)) is more apparent. Such management requirement has promoted the prudent use of antibiotics by clinicians, while certain Chinese medicines that have antibiotic function has gained more attention from doctors, and therefore should have better sales prospect. During the year under review, anti-inflammatory TCM of the Group such as Lianzhi Anti-inflammatory Tablet (蓮芝消炎片), Anti-inflammatory Cholagogic Tablet (消炎利膽片), Yinqiao Antidotal Tablet (銀翹解毒片), VC Yinqiao Tablet (維C銀翹片) and Andrographis Tablet (穿心蓮片) have achieved good sales performance.

BUSINESS REVIEW

Sales of Products

During the year under review, the Group's turnover increased by 24.8% from HK$1,015,935,000 for the corresponding period last year to HK$1,268,143,000, which was mainly attributable to the focus strategies in terms of specific products, markets and management. Focusing on specific products means the Group emphasized on expanding the market for its core products, including Yu Ping Feng Granule (玉屏風顆粒), Nifedipine Sustained-release Tablet (Sheng Tong Ping) (硝苯地平緩釋片(聖通平)), Bi Yan Kang Tablet (鼻炎康片) and Feng Liao Xing Medicinal Wine (馮了性藥酒). Focusing on markets means enhancing the market development work and increasing the usage of our core products at ranked health care institutions; expanding the coverage of essential drugs among primary health care institutions, and co-operating with major chain pharmacies to increase coverage of end-market retailing for our core products. Focusing on management means the implementation of a comprehensive performance evaluation on our sales team at all levels and enhancing the integrated management ability of our provincial managers.

Analysis by Types of Medicines:

	For the year ended 31 December				
	2012 HK$'000	**Percentage to turnover**	2011 HK$'000	Percentage to turnover	Change
Respiratory system drugs and nasal preparations	**587,505**	**46.3%**	442,942	43.6%	32.6%
Cerebro-cardiovascular drugs	**164,894**	**13.0%**	151,975	15.0%	8.5%
Rheumatic diseases and bone injury drugs	**155,749**	**12.3%**	132,438	13.0%	17.6%
Antibiotics	**70,318**	**5.6%**	66,165	6.5%	6.3%
Oncology drugs	**20,414**	**1.6%**	19,581	1.9%	4.3%
Others	**269,263**	**21.2%**	202,834	20.0%	32.8%
Total	**1,268,143**	**100.0%**	1,015,935	100.0%	24.8%

Analysis by TCM and Chemical Medicine:

	For the year ended 31 December				
	2012 HK$'000	**Percentage to turnover**	2011 HK$'000	Percentage to turnover	Change
TCM	**1,050,544**	**82.8%**	821,211	80.8%	27.9%
Chemical medicine	**217,599**	**17.2%**	194,724	19.2%	11.7%
Total	**1,268,143**	**100.0%**	1,015,935	100.0%	24.8%

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2012 HK$'000	**Percentage to turnover**	2011 HK$'000	Percentage to turnover	Change
Bi Yan Kang Tablet	**272,224**	**21.5%**	220,424	21.7%	23.5%
Yu Ping Feng Granule	**205,649**	**16.2%**	130,200	12.8%	57.9%
Sheng Tong Ping	**109,128**	**8.6%**	92,699	9.1%	17.7%
Feng Liao Xing Medicinal Wine	**106,677**	**8.4%**	82,845	8.2%	28.8%
Gaode	**69,105**	**5.4%**	67,022	6.6%	3.1%
VC Yinqiao Tablet	**41,673**	**3.3%**	23,113	2.3%	80.3%
Yuanjilin Herbal Tea	**28,439**	**2.2%**	18,284	1.8%	55.5%
Sha Pei Lin	**20,414**	**1.6%**	19,618	1.9%	4.1%
Shedan Chuanbei San	**18,771**	**1.5%**	15,124	1.5%	24.1%
Yao Shen Herbal Plaster	**18,175**	**1.4%**	14,409	1.4%	26.1%
Other products	**377,888**	**29.9%**	332,197	32.7%	13.8%
Total	**1,268,143**	**100.0%**	1,015,935	100.0%	24.8%

Cost control

During the year under review, the Group kept deepening the integration of end-market sales resources, streamlining sales personnel, reinforcing sales expense control and improving sales and marketing efficiency, so as to lay a solid foundation for the stable sales growth of the Group. Meanwhile, the Group rationalized and optimized the management procedures of various departments, including marketing, operation, finance, research and development, production and human resources, so as to reduce administrative costs and improve the output per capita and management efficiency.

Research and development

The Group's research and development ("R&D") on new products will be focused on cerebro-cardiovascular drugs. In 2012, Nicotinic Acid Sustained Release Capsules (Luoweiding) (煙酸緩釋膠囊(洛唯定)), an exclusive drug for hyperlipemia was granted the production approval, Rosuvastatin Tablet (瑞舒伐他汀片), Indapamide Release Tablet (吲噠帕胺緩釋片) and Nifedipine Sustained-release Tablet (30mg) (New Sheng Tong Ping) (硝苯地平緩釋片(新聖通平)) were reported, and the consistency evaluation of "Sheng Tong Ping" was finished and reported. These products are expected to commence production and launch for sales next year, which will greatly enrich our cerebro-cardiovascular product lines and will serve as the catalyst for the sustainable sales growth in the future.

In addition, the Group has achieved a remarkable progress in some major R&D projects, such as obtaining approval for Aspirin Paracetamol and Caffeine Tablet (阿咖酚片) (use for curing migraine) for a term of 2 years and completing the revision on its quality standard; completing the reporting procedures for enhancing the standard of Cefodizime Sodium for injection (Gaode) (注射用頭孢地嗪(高德)); rolling out Phase IV clinical trial of Sha Pei Lin (沙培林) used for curing bladder cancer in full; and Fexofenadine/Pseudophedrine Sustained-release capsule (非索偽麻緩釋膠囊), a category 3.2 new drug, has entered into the technical evaluation and complementary stage.

Products under research and development include: Cerebro-cardiovas products--Metoprolol Tartrate Sustained Release Tablet (酒石酸美托洛爾緩釋片), Telmisartan Tablet (替米沙坦片), Telmisartan and Hydrochlorothiazide Bilayer Tablet (替米沙坦+氫氯噻嗪雙層片), Amlodipine Besylate and Atorvastatin Calcium Tablet (氨氯地平阿托伐他汀鈣片), Benidipine Tablet (貝尼地平片), Sitagliptin Tablet (西格列汀), Dofetilide (多非利特); drug for dysmnesia treatment-Galanthamine Hydrobromide Sustained Release Capsule (氫溴酸加蘭他敏緩釋膠囊); and drug for BPH treatment – Alfuzosin Hydrochloride Sustained Release Tablet (鹽酸阿夫唑嗪緩釋片).

The clinical trial of two new products, namely "Hongzhu Capsule (紅珠膠囊)", a Chinese medicine under category 5 for respiratory system and Artemether Xureqing Granule (蒿甲虛熱清顆粒), a new Chinese medicine under category 6 which has specified healing efficacy for fever in children, has been successfully undergoing relevant complementary trials in accordance with new technical standards. The re-development proposal of Feng Liao Xing Medicinal Wine has been progressed as planned while the development of a new Chinese medicine under category 6 for diabetes has commenced. These new projects for Chinese medicine will further enhance the existing and future development of the Group's Chinese medicine business.

Progress of investment projects

Feng Liao Xing Materials & Slices

Foshan Nanhai Pharmaceutical Group Medicinal Material Co., Ltd. (佛山市南海醫藥集團藥材有限公司), a wholly-owned subsidiary of the Group, has been renamed as Foshan Feng Liao Xing Medicinal Materials & Slices Co., Ltd. (佛山馮了性藥材飲片有限公司) with effect from 15 June 2012, so as to reflect its business development and "Feng Liao Xing Material & Slices" brand strategy. The new name can better reflect the three major business scopes that will be developed in the future, including TCM decoction pieces business, high-end quality TCM decoction pieces and health care business.

According to the five-year (2011-2015) plan of the Group, the business strategy of Feng Liao Xing Material & Slices will focus on TCM decoction pieces, and supplemented by health care products, and will become the new driver for the Group's sales growth by enriching our product mix, exploring new sales channels and improving overall product quality.

Guizhou Zhongtai

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among a wholly-owned subsidiary of the Group, Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World") and Henan Xintai Medicine Company Limited ("Henan Xintai") and Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai", a wholly-owned subsidiary of Henan Xintai) ("the Investment Agreement"), Henan Xintai has agreed that Guizhou Zhongtai will increase its registered capital ("Increased Capital") and Guangdong Medi-World has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million (equivalent to approximately HK$183.6 million). The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai upon completion. In addition, the Group provided a pledged loan of RMB70 million (equivalent to approximately HK$86 million) to Guizhou Zhongtai through Guangdong Medi-World (the "Loan") as its working capital. In accordance with the loan agreement, if increase in registered capital of Guizhou Zhongtai is approved by the relevant authority in Guizhou Province within three months after entering into the Investment Agreement, the Loan would bear no interest, otherwise interest payment should be made by Guizhou Zhongtai to Guangdong Medi-World at the then prevailing interest rate for bank borrowing and should be accrued since the date of the Loan. In 2012, interest income recognized for the Loan was approximately HK$8,332,000. The net interest income of the Loan was HK$1,861,000, less the financing cost of the Group of approximately HK$6,471,000.

In January 2013, with approval of local government, Guangdong Medi-World invested RMB23 million (approximately HK$28 million). Pursuant to the investment agreement, the first consideration is RMB93 million (approximately HK$115 million) and the remaining balance of RMB70 million (approximately HK$86 million) will be paid after Guizhou Zhongtai repays the loan. Guizhou Zhongtai will become the subsidiary of the Group upon the completion of the transaction above.

Land for the Headquarters

In April 2010, the Group successfully bid a land parcel of 33 mus at the south part of Kui Qi Road and the east part of Ling Nan Road, Chan Cheng Area, Foshan, at a consideration (land premium) of approximately RMB77,060,000. Such land parcel is originally planned to be used for education (R&D and design). The Group plans to construct headquarters building and R&D center on the land. According to the letter "關於啟動市中心組團新城區北片控制詳細規劃(修訂)嶺南大道以東、魁奇路以南地塊規劃調整的復函", the usage of such land parcel has been adjusted for commercial land use. The land bank management office of Chan Cheng Area in Foshan (the "Land Bank Management Office") will auction the land use right of such land parcel by additional tender. The Land Bank Management Office pays the interest for the land premium, calculated at the one year benchmark lending rate of People's Bank of China, as a compensation. In 2012, the interest income of such land premium recognized was HK$14,226,000 since the payment of land premium from August 2010 to the end of 2012. The net interest income of such land premium was HK$7,811,000, less the corresponding financing cost of the Group of approximately HK$6,415,000 in 2012. Notwithstanding the foregoing, the Board considered that there will not be any material adverse effect to the Group.

Dezhong Gaoming TCM Extraction Base

By the end of 2012, the Group completed the construction of Dezhong Gaoming which has started operation, representing upgraded and next generation equipment, technology and technique for TCM materials pre-processing and extraction. It is a modern TCM extraction and drinking pills production base possessing the most advanced technology and management system in China with an annual production capacity of processing 20,000 tonnes TCM materials and 80 million packets of TCM decoction pieces.

Solid Preparations Workshop

Yu Ping Feng Granules is one of our core products, the sales of which have increased substantially in recent years. In order to meet the need for strategic development of the Group, we have started to constructing a new and modernized solid preparations workshop since last year. On 15 June 2012, the construction of the new solid preparations workshop with an annual capacity of 600 million bags of granules has commenced. This workshop occupies a site area of 2,660 square meters and its production technology and equipment model will fully comply with the new GMP's requirement.

FINANCIAL REVIEW

Turnover

During the reporting period, the Group's turnover increased by 24.8% to HK$1,268,143,000 from HK$1,015,935,000 for the corresponding period last year. The increase in sales was attributable to the successful expansion of our product coverage in primary health care institutions, as well as the partnerships established with major chain pharmacy which has increased its coverage in OTC retail market, resulting in the satisfactory growth of our core products (such as Yu Ping Feng Granule and Bi Yan Kang Tablet). In addition, the business of Foshan Winteam Pharmaceutical Sales Company Limited (formerly known as Foshan Nanhai Yikang Pharmaceutical Co., Ltd.), which was acquired by the Group at the end of last year, also contributed to the increase in the turnover of the Group directly.

Cost of Sales

During the reporting period, the Group's cost of sales was HK$574,915,000, representing an increase of 23.0% as compared to HK$467,529,000 for the corresponding period last year. Direct raw materials, direct labor and production overhead accounted for approximately 71.4%, 10.8% and 17.8% of the total cost of sales, respectively, as compared to 76.7%, 11.3% and 12.0% for the corresponding period last year.

Other Revenue

During the year under review, the Group's other revenue was HK$30,872,000, representing an increase of approximately 150.9% compared to HK$12,306,000 for the corresponding period last year.

	2012	2011	
	HK$'000	HK$'000	Change
Interest income	**24,908**	1,452	1615.4%
Government grants	**4,960**	9,432	-47.4%
Rental income	**1,004**	1,422	-29.4%
Total	**30,872**	12,306	150.9%

Interest income increased, which was mainly due to the interest income of HK$14,226,000 from the compensation for land premium of the land for headquarters and interest income of HK$8,332,000 from the loan to Guizhou Zhongtai.

Other Net Income

During the year under review, the Group's other net income was HK$242,000, representing a decrease of HK$383,000 as compared to HK$625,000 for the corresponding period last year. Other net income decreased, which was mainly due to the increase of approximately HK$320,000 in the loss of disposal of fixed assets.

Sales and Distribution Costs

During the year under review, the Group's sales and distribution costs amounted to HK$289,651,000 (2011: HK$328,642,000).

	2012	2011	
	HK$'000	HK$'000	Change
Advertising, promotion and traveling expenses	**169,269**	221,094	-23.4%
Salary expenses of sales and marketing staffs	**84,773**	62,021	36.7%
Distribution and logistics costs	**14,192**	13,368	6.2%
Other sales and distribution costs	**21,417**	32,159	-33.4%
Total	**289,651**	328,642	-11.9%

Although the increase in sales amount drove the salary expenses of sales and marketing staff to increase by 36.7%, the Group enhanced control over sales costs reducing advertising and promotion and traveling expenses by 23.4%, other sales and distribution costs by 33.4%, resulting in a decrease in sales in distribution cost of 11.9% as compared to the corresponding period of last year.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to HK$144,876,000 (2011: HK$130,551,000).

	2012	2011	
	HK$'000	HK$'000	Change
Staff salary	**40,567**	36,960	9.8%
Depreciation and amortization	**13,480**	8,323	62.0%
Expenses for product research and development	**42,862**	41,506	3.3%
Office rental cost and other expenses	**47,967**	43,762	9.6%
Total	**144,876**	130,551	11.0%

Administrative expenses increased by 11.0% as compared to the corresponding period of last year, which was mainly due to the aggregate increase in executive salary expense of HK$3,607,000; increase in depreciation and amortization of HK$5,157,000, which was mainly due to the increase in depreciation of fixed asset during the construction preparation period of Dezhong Gaoming. Office rental costs and other expenses increased by HK$4,205,000.

Profit from Operations

During the year under review, the Group's profit from operations was HK$289,815,000, representing an increase of 183.7% as compared to HK$102,144,000 for the corresponding period last year, while operating profit ratio (defined as profit from operations divided by total turnover) increased to approximately 22.9% from 10.1% for the corresponding period last year.

Finance Costs

During the year under review, the Group's finance costs amounted to HK$23,831,000 (2011: HK$7,689,000), and the higher finance costs as compared with the corresponding period last year was attributable to the increase in the Group's bank borrowings to approximately HK$511,104,000 (31 December 2011: HK$340,570,000). The effective interest rate for the loans was 6.75% (31 December 2011: 6.23%).

Earnings per share

During the year under review, the basic earnings per share was HK11.61 cents, representing an increase of 187.4% as compared to HK4.04 cents for the corresponding period last year. The increase in basic earnings per share was due to the profit attributable to equity shareholders increased by 187.4% to approximately HK$207,134,000 (2011: HK$72,072,000).

Liquidity and Financial Resources

As at 31 December 2012, the Group's current assets amounted to approximately HK$1,004,512,000 (31 December 2011: HK$709,510,000), which included cash, cash equivalents and deposits with banks of approximately HK$165,118,000 (31 December 2011: HK$47,273,000), as well as trade and other receivable of approximately HK$546,088,000 (31 December 2011: HK$346,891,000). Current liabilities amounted to approximately HK$800,722,000 (31 December 2011: HK$596,849,000). Net current assets aggregated to approximately HK$203,790,000 (31 December 2011: HK$112,661,000). The Group's current ratio was 1.3 (31 December 2011: 1.2). The gearing ratio (defined as bank loans divided by the interests attributable to equity shareholders of the Company) increased to 50.0% from 35.9% as at 31 December 2011. Such increase was due to the increase in bank loans to fund the Group's business expansion and production capacity expansion.

Bank Loans and Pledge of Assets

As at 31 December 2012, the balance of the Group's bank loans was approximately HK$511,104,000 (31 December 2011: HK$340,570,000), of which approximately HK$313,775,000 (31 December 2011: HK$161,711,000) was secured by the Group's assets with book value of HK$233,545,000 (31 December 2011: HK$80,627,000). The additional bank loans were mainly used as the loan for Guizhou Zhongtai, and the construction cost of Dezhong Gaoming.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2012 (31 December 2011: Nil).

Employee and Remuneration Policies

As at 31 December 2012, the Group employed a total of 3,167 (31 December 2011: 3,510) staff members, including directors of the Company, of which the number of sales staff, production staff and those engaged in operation and administration and senior management were 1,450, 1,269 and 448, respectively. Remuneration packages principally comprised salary and discretionary performance bonus based on individual merits. The Group's total remuneration for the period was approximately HK$184,600,000 (2011: HK$148,212,000).

Final Dividend

The Board has resolved not to declare a final dividend for the year ended 31 December 2012 (2011: HK5.00 cents per share).

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting the annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of chinese medicine and pharmaceutical products in the PRC.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 47 to 112 of this report.

An interim dividend of HK2.50 cents per share for the six months ended 30 June 2012 was paid on 15 October 2012 (six months ended 30 June 2011: Nil).

The Board has resolved not to declare a final dividend for the year ended 31 December 2012 (2011: HK5.00 cents per share). The total distribution for year ended 31 December 2012 is HK2.50 cents per share (2011: HK5.00 cents per share). The Company shall review its dividend policy from time to time and would distribute dividend to shareholders at appropriate time.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$207,134,000 (2011: HK$72,072,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 26(a) and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2012 are set out in note 16 to the financial statements.

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

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

DIRECTORS

The Board comprises the following Directors during the financial year and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman (appointed as Executive Director on 5 February 2013 and Chairman on 28 February 2013)*
Mr. YANG Bin	*Managing Director*
Mr. XU Tiefeng	*(resigned as Executive Director and Chairman on 28 February 2013)*
Mr. SITU Min	*Chief Financial Officer (resigned as Executive Director on 28 February 2013)*
Mr. LI Songquan	*(resigned as Executive Director and Deputy Managing Director on 28 March 2012)*
Mr. LU Jun	*(appointed as Executive Director on 5 February 2013 and resigned as Executive Director on 6 March 2013)*

Non-executive Directors

Mr. SHE Lulin	*(appointed on 5 February 2013)*
Mr. LIU Cunzhou	*(appointed on 5 February 2013)*
Mr. DONG Zenghe	*(appointed on 6 March 2013)*
Mr. ZHAO Dongji	*(appointed on 5 February 2013)*
Mr. DU Richeng	*(resigned on 28 February 2013)*

Independent Non-executive Directors

Mr. ZHOU Bajun	*(appointed on 5 February 2013)*
Mr. XIE Rong	*(appointed on 5 February 2013)*
Mr. FANG Shuting	*(appointed on 5 February 2013)*
Mr. LO Wing Yat	*(resigned on 28 February 2013)*
Mr. PANG Fu Keung	*(resigned on 28 February 2013)*
Mr. WANG Bo	*(resigned on 28 February 2013)*
Mr. ZHANG Jianhui	*(resigned on 28 February 2013)*

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all the independent non-executive Directors to be independent.

All the directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with Article 92 of the Company's Articles of Association, Mr. WU Xian, Mr. SHE Lulin, Mr. LIU Cunzhou, Mr. ZHAO Dongji, Mr. ZHOU Bajun, Mr. XIE Rong and Mr. FANG Shuting shall hold office until the forthcoming annual general meeting of the Company (the "AGM") and shall then be eligible for re-election. In accordance with Article 101 of the Company's Articles of Association, Mr. YANG Bin and Mr. DONG Zenghe shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the existing Directors as at the date of this annual report, including the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 42 to 44 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian has entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

Mr. YANG Bin has entered into a service agreement with the Company for an initial term of two years commencing from 21 June 2009 which shall automatically be renewed thereafter until terminated by either party to the service agreement by giving a six months' prior notice.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Each of Mr. SHE Lulin, Mr. LIU Cunzhou and Mr. ZHAO Dongji has entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

Mr. DONG Zenghe has entered into an appointment letter with the Company for a term of two years commencing from 6 March 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Each of Mr. ZHOU Bajun, Mr. XIE Rong and Mr. FANG Shuting has entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the Remuneration Committee and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2012, the fee for each of the Directors was fixed at HK$180,000 per annum.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company since the date of the 2012 Interim Report is as follows:

After recent review of the Directors' remuneration by the Remuneration Committee of the Company, the remuneration of the Directors for the year ending 31 December 2013 shall be revised:

- each of Mr. WU Xian, Mr. SHE Lulin, Mr. DONG Zenghe and Mr. ZHAO Dongji will not receive remuneration from the Company in his capacity as a Director;
- Mr. YANG Bin will receive an annual remuneration (inclusive of Director's fee) of RMB1,860,000;
- Mr. LIU Cunzhou will not receive an annual director's fee but will receive a director allowance according to the number of meetings attended at a rate of RMB3,000 per meeting; and
- All the independent non-executive Directors will receive annual directors' fee of HK$200,000.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHANGES OF CONTROLLING SHAREHOLDERS

On 31 August 2012, Sinopharm Hong Kong, an indirect wholly-owned subsidiary of CNPGC, entered into the conditional sale and purchase agreement ("S&P Agreement") with Mr. YANG Bin and Mr. XU Tiefeng, Extra Benefit Corp. ("Extra Benefit"), Profit Channel Development Limited ("Profit Channel") and Sureplan Limited ("Sureplan", together with Mr. YANG Bin, Mr. XU Tiefeng, Extra Benefit and Profit Channel, the "Vendors") as the vendors and Mr. YANG Bin and Mr. XU Tiefeng (the "Guarantors") as the guarantors, pursuant to which the Offeror has conditionally agreed to purchase and the Vendors have conditionally agreed to sell or procure the sale of 354,898,750 shares ("Sale Shares") for a minimum consideration of an aggregate of HK$496,858,250 (equivalent to HK$1.40 per Sale Share) and a maximum consideration of an aggregate of HK$603,327,875 (equivalent to HK$1.70 per Sale Share). The Sale Shares represent approximately 19.90% of the entire issued share capital of the Company. The sale and purchase of the Sale Shares contemplated under the S&P Agreement was completed on 29 January 2013 ("Completion").

Citigroup Global Markets Asia Limited, had, for and on behalf of the Offeror, made a voluntary conditional cash offer to acquire all of the issued shares of the Company (the "VGO"). The VGO became unconditional on 14 February 2013 and closed on 28 February 2013. After the Completion and the close of the VGO, the Offeror and parties acting in concert with it are interested in an aggregate of 1,016,023,044 shares, representing approximately 56.97% of the total issued share capital of the Company.

For details of the VGO, please refer to the Composite Offer and Response Document and the announcement of the Company dated 5 February 2013 and 28 February 2013, respectively.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2012, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares of the Company as at 31 December 2012:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
XU Tiefeng	Interest of controlled corporations	448,395,141 *(Notes 1, 2 & 4)*	25.14%
	Beneficial owner	1,470,000	0.08%
	Total	*449,865,141*	*25.22%*
YANG Bin	Interest of controlled corporations	448,395,141 *(Notes 1, 3 & 4)*	25.14%

Note:

1. Of the 448,395,141 shares, 68,178,172 shares were held by Sureplan, which is 33% owned indirectly by Mr. XU Tiefeng and 67% owned indirectly by Mr. YANG Bin. Both Mr. XU Tiefeng and Mr. YANG Bin are deemed to be interested in Sureplan's interest in the Company under SFO. Both Mr. XU Tiefeng and Mr. YANG Bin are directors of Sureplan.

2. Of the 448,395,141 shares, 380,145,443 shares were held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.

3. Of the 448,395,141 shares, 380,145,443 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin. As at the date of this report, only 267,511,621 shares were held by Profit Channel.

4. Of the 448,295,891 shares, 71,526 shares were held by Profit United, which is 50% owned directly by each of Mr. XU Tiefeng and Mr. YANG Bin.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2012, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2012, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company as at 31 December 2012:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Issued Share Capital
Sinopharm Hong Kong	Beneficial owner	354,898,750 *(Note 1)*	19.90%
CNPGC	Interest of a controlled corporation	354,898,750 *(Note 1)*	19.90%
Sureplan	Beneficial owner	68,178,172 *(Note 2)*	3.82%
Extra Benefit	Interest of a controlled corporation	68,178,172 *(Note 2)*	3.82%
	Beneficial owner	380,145,443 *(Note 3)*	21.32%
	Total	*448,323,615*	*25.14%*
Profit Channel	Interest of a controlled corporation	68,178,172 *(Note 2)*	3.82%
	Beneficial owner	380,145,443 *(Note 4)*	21.32%
	Total	*448,323,615*	*25.14%*

Note:

1. The 354,898,750 shares were held by Sinopharm Hong Kong, which is wholly owned indirectly by CNPGC.
2. The 68,178,172 shares were held by Sureplan, which is owned directly as to 67% by Profit Channel and 33% by Extra Benefit. Profit Channel and Extra Benefit are deemed to be interested in Sureplan's interest in the Company under SFO.
3. The 380,145,443 shares were held by Extra Benefit, which is wholly owned by Mr. XU Tiefeng.
4. The 380,145,443 shares were held by Profit Channel, which is wholly owned by Mr. YANG Bin.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2012.

After the closing of the VGO, as at the date of this report, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company as at the date of this report:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Issued Share Capital
Sinopharm Hong Kong	Beneficial owner	1,016,023,044 *(Note 1)*	56.97%
CNPGC	Interest of a controlled corporation	1,016,023,044 *(Note 1)*	56.97%
Profit Channel	Beneficial owner	267,511,621 *(Note 2)*	15.00%

Note:

1. The 1,016,023,044 shares are held by Sinopharm Hong Kong, which is wholly owned indirectly by CNPGC.

2. The 267,511,621 shares are held by Profit Channel, which is wholly owned by Mr. YANG Bin.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at the Extraordinary General Meeting of the Company held on 22 May 2002 and amended by the Company's shareholders at the AGM on 29 May 2006. The Scheme expired on 21 May 2012. As at the date of this report, the Company did not adopt any new share option scheme.

No option was granted, exercised, cancelled or lapsed during the year.

None of the Directors and chief executives of the Company had any personal interests in the share options to subscribe for shares of the Company at any time during the year.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party and in which the Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The Company or its subsidiaries did not enter into any connected transaction during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the largest customer and the five largest customers of the Group accounted for around 11% and 22% of the Group's total turnover during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 4% and 16% of the Group's total purchases during the year.

At no time during the year, none of the Directors, their associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 24 to the financial statements.

AUDITORS

There was not any change of auditors of the Company in the preceding three years. KPMG shall retire and, being eligible, offer themselves for re-appointment as auditors of the Company for the financial year ending 31 December 2013. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2012 has been reviewed by the audit committee of the Company ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 31 to 41 of this annual report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 41 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this annual report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 23 March 2013

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules which was revised and took effect on 1 April 2012, as well as those of the former Code, for the year ended 31 December 2012, except code provision A.5.2(a) of the Code that the Nomination Committee did not convene any meeting during the year. For details of deviation, please refer to the section headed "Nomination Committee" below.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman (appointed as Executive Director on 5 February 2013 and Chairman on 28 February 2013)*
Mr. YANG Bin	*Managing Director*
Mr. XU Tiefeng	*(resigned as Executive Director and Chairman on 28 February 2013)*
Mr. SITU Min	*Chief Financial Officer (resigned as Executive Director on 28 February 2013)*
Mr. LI Songquan	*(resigned as Executive Director and Deputy Managing Director on 28 March 2012)*
Mr. LU Jun	*(appointed as Executive Director on 5 February 2013 and resigned as Executive Director on 6 March 2013)*

Non-executive Directors:

Mr. SHE Lulin	*(appointed on 5 February 2013)*
Mr. LIU Cunzhou	*(appointed on 5 February 2013)*
Mr. DONG Zenghe	*(appointed on 6 March 2013)*
Mr. ZHAO Dongji	*(appointed on 5 February 2013)*
Mr. DU Richeng	*(resigned on 28 February 2013)*

Independent Non-executive Directors:

Mr. ZHOU Bajun	*(appointed on 5 February 2013)*
Mr. XIE Rong	*(appointed on 5 February 2013)*
Mr. FANG Shuting	*(appointed on 5 February 2013)*
Mr. LO Wing Yat	*(resigned on 28 February 2013)*
Mr. PANG Fu Keung	*(resigned on 28 February 2013)*
Mr. WANG Bo	*(resigned on 28 February 2013)*
Mr. ZHANG Jianhui	*(resigned on 28 February 2013)*

As at the date of this report, the Board comprises nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at the Board meetings and the relevant committee works. In addition, Mr. XIE Rong, an independent non-executive Director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:–

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive directors, senior management and certain specific responsibilities to the Board Committees.

The Board has confirmed that the senior management of the Company comprises only the executive Directors during the reporting period.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 7 and 8 to the financial statements.

For the year ended 31 December 2012, the Company had convened six Board meetings and the 2012 annual general meeting (the "2012 AGM"). The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings	
Directors	**Board Meetings**	**2012 AGM**
Executive Directors:		
Mr. WU Xian *(appointed on 5 February 2013)*	N/A	N/A
Mr. YANG Bin	6/6	0/1
Mr. XU Tiefeng *(resigned on 28 February 2013)*	6/6	1/1
Mr. SITU Min *(resigned on 28 February 2013)*	6/6	1/1
Mr. LI Songquan *(resigned on 28 March 2012)*	1/1	N/A
Mr. LU Jun *(appointed on 5 February 2013 and resigned on 6 March 2013)*	N/A	N/A
Non-executive Directors:		
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	N/A	N/A
Mr. DONG Zenghe *(appointed on 6 March 2013)*	N/A	N/A
Mr. ZHAO Dongji *(appointed on 5 February 2013)*	N/A	N/A
Mr. DU Richeng *(resigned on 28 February 2013)*	6/6	1/1
Independent Non-executive Directors:		
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	N/A	N/A
Mr. XIE Rong *(appointed on 5 February 2013)*	N/A	N/A
Mr. FANG Shuting *(appointed on 5 February 2013)*	N/A	N/A
Mr. LO Wing Yat *(resigned on 28 February 2013)*	6/6	1/1
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	6/6	1/1
Mr. WANG Bo *(resigned on 28 February 2013)*	6/6	1/1
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	6/6	0/1

Chairman and Managing Director

Mr. DU Richeng, a non-executive Director is the Chairman of the Board until 28 March 2012 and Mr. XU Tiefeng, an executive Director was re-designated as the Chairman of the Board since 28 March 2012. As at the date of this report, Mr. XU Tifeng was no longer a Director, as he had tendered his resignation as an executive Director with effect from 28 February 2013 after the closing of the VGO. Mr. WU Xian was appointed as the new Chairman of the Board with effect from 28 February 2013. Mr. YANG Bin, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The Company set up a nomination committee (the "Nomination Committee") with effect from 1 April 2012. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

All the Directors are appointed for a specific term and subject to retirement and re-election in accordance with the Articles of Association of the Company.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

Pursuant to the requirements of the Code, all Directors should provide their training record to the Company. According to the training records provided by the Directors, the training attended by them during the reporting period is summarized as follows:

Directors	**Corporate Governance, Regulatory Development and Trainings on other relevant topics**
Executive Directors:	
Mr. WU Xian *(appointed on 5 February 2013)*	N/A
Mr. YANG Bin	✓
Mr. XU Tiefeng *(resigned on 28 February 2013)*	✓
Mr. SITU Min *(resigned on 28 February 2013)*	✓
Mr. LI Songquan *(resigned on 28 March 2012)*	N/A
Mr. LU Jun *(appointed on 5 February 2013 and resigned on 6 March 2013)*	N/A
Non-executive Directors:	
Mr. SHE Lulin *(appointed on 5 February 2013)*	N/A
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	N/A
Mr. DONG Zenghe *(appointed on 6 March 2013)*	N/A
Mr. ZHAO Dongji *(appointed on 5 February 2013)*	N/A
Mr. DU Richeng *(resigned on 28 February 2013)*	✓

Director	Corporate Governance, Regulatory Development and Trainings on other relevant topics
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	N/A
Mr. XIE Rong *(appointed on 5 February 2013)*	N/A
Mr. FANG Shuting *(appointed on 5 February 2013)*	N/A
Mr. LO Wing Yat *(resigned on 28 February 2013)*	✓
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	✓
Mr. WANG Bo *(resigned on 28 February 2013)*	✓
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	✓

Nomination Committee

On 23 March 2012, the Board has approved the establishment of the Nomination Committee with effect from 1 April 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors.

The written terms of reference which describe the authority and duty of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

During the year, no meeting was convened by the Nomination Committee that was deviated from the code provision A5.2(a) of the Code as there was not any immediate need to make any change to the composition of the Board after its establishment and the composition of the Board should remain intact during the VGO period. The Nomination Committee convened a meeting on 24 January 2013 and considered the biographies and suitability of the Directors nominated by the new controlling shareholder as well as the new composition of the Board and make recommendations to the Board for the proposed appointment and the change to the Board.

The composition of the Nomination Committee as at 31 December 2012 and up to the date of this report is as follows:

Members of the Nomination Committee	Attendance
Executive Directors:	
Mr. WU Xian *(Chairman, appointed on 5 February 2013)*	N/A
Mr. YANG Bin	0/0
Mr. XU Tiefeng *(Former Chairman, resigned on 28 February 2013)*	0/0

Members of the Nomination Committee	Attendance
Independent Non-executive Directors:	
Mr. ZHOU Bajun (appointed on 5 February 2013)	N/A
Mr. XIE Rong (appointed on 5 February 2013)	N/A
Mr. FANG Shuting (appointed on 5 February 2013)	N/A
Mr. LO Wing Yat (resigned on 28 February 2013)	0/0
Mr. PANG Fu Keung (resigned on 28 February 2013)	0/0
Mr. WANG Bo (resigned on 28 February 2013)	0/0
Mr. ZHANG Jianhui (resigned on 28 February 2013)	0/0

Audit Committee

The Audit Committee comprised all of the independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The Board has approved the adoption of revised terms of reference of the Audit Committee with effect from 1 April 2012. The revised written terms of reference are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Members of the Audit Committee	Attendance
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman, appointed on 5 February 2013)*	N/A
Mr. ZHOU Bajun *(appointed on 5 February 2013)*	N/A
Mr. FANG Shuting *(appointed on 5 February 2013)*	N/A
Mr. LO Wing Yat *(resigned on 28 February 2013)*	2/2
Mr. PANG Fu Keung *(Former Chairman, resigned on 28 February 2013)*	2/2
Mr. WANG Bo *(resigned on 28 February 2013)*	2/2
Mr. ZHANG Jianhui *(resigned on 28 February 2013)*	2/2

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2011 and the interim results and the interim report of the Group for the year 2012, as well as the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

The Remuneration Committee was established in 2005.

The main roles and functions of the Remuneration Committee are as follows: (a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; (c) either: (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group; (e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (f) reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (g) making recommendations to the Board on the remuneration of non-executive Directors. The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The Board has approved the adoption of revised terms of reference of the Remuneration Committee with effect from 1 April 2012. The revised written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, one Remuneration Committee meeting was held and the individual attendance of each member is set out below:

Members of the Remuneration Committee	Attendance
Non-Executive Directors:	
Mr. LIU Cunzhou *(appointed on 5 February 2013)*	N/A
Mr. DU Richeng *(resigned on 28 February 2013)*	1/1
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(Chairman, appointed on 5 February 2013)*	N/A
Mr. XIE Rong *(appointed on 5 February 2013)*	N/A
Mr. FANG Shuting *(appointed on 5 February 2013)*	N/A
Mr. LO Wing Yat *(Former Chairman, resigned on 28 February 2013)*	1/1
Mr. PANG Fu Keung *(resigned on 28 February 2013)*	1/1
Mr. WANG Bo *(resigned on 28 February 2013)*	1/1
MR. ZHANG Jianhui *(resigned on 28 February 2013)*	1/1

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. Specified employees who may possess or have access to price sensitive information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2012, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 45 to 46 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	**Fee paid/payable in 2012** HK$
Audit service	2,312,000
Non-audit service	59,000
Total	2,371,000

COMPANY SECRETARY

The Company engages an external service provider, Mr. HUEN Po Wah, as its Company secretary, and the Company secretary may contact Mr. SITU Min, the Chief Financial Officer of the Company pursuant to code provision F.1.1 of the Code. Mr. HUEN confirmed that he had taken not less than 15 hours' relevant professional training during the year.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.winteamgroup.com as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	publicrelation@winteamgroup.com.hk
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code.

During the year under review, the Board met once to review the compliance of the Code and disclosure in this Corporate Governance Report.

ARTICLES OF ASSOCIATION

During the reporting year, there was no amendment made to the articles of association of the Company.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.winteamgroup.com" after the relevant shareholders' meetings.

Convening of extraordinary general meeting on requisition by shareholders

Extraordinary general meetings may be convened by the Board on written requisition of shareholder(s) individually or jointly holding not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company pursuant to Article 65 of the Articles of Association and section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "Companies Ordinance").

Shareholders should follow and comply with the requirements and procedures as set out in section 113 of the Companies Ordinance, which is summarized as follows:

- The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form, each signed by one or more requisitionists.
- If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date.
- Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be repaid to the requisitionists by the Company.

Procedures for directing shareholders' enquires to the Board

Shareholders can raise enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

The Company secretary shall forward the shareholders enquiries and concerns to the Board and/or relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

Procedures for putting forward proposals at general meetings by shareholders

Shareholders are requested to follow section 115A of the Companies Ordinance for including a resolution at an AGM. The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the an AGM to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved and is intended to be moved at an AGM.

(ii) The Company shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of an AGM unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company at Rooms 2801-2805, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong for the attention of the Company secretary not less than 6 weeks before an AGM in the case of a requisition requiring notice of a resolution and not less than 1 week before an AGM in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date 6 weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 52, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has 28 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National Corp. of Traditional & Herbal Medicine since August 2010.

Mr. YANG Bin, aged 45, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China*) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation*), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.*), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory*) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.*). Mr. YANG has over 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr.YANG is currently the Chairman and a director of Guangdong Medi-World, Dezhong, Foshan Feng Liao Xing Pharmaceutical Co., Ltd and 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.*).

NON-EXECUTIVE DIRECTOR

Mr. SHE Lulin, aged 56, was appointed to the Board on 5 February 2013. Mr. SHE obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. SHE has around 29 years of working experience, over 26 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. SHE was the deputy office head, assistant to the general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from August 1982 to August 1996. Mr. SHE was also the vice-chairman and general manager of CNPGC from December 1998 to October 2004. Mr. SHE has been a director, general manager and secretary of Party Committee of CNPGC from October 2004 to October 2009. He has been the vice-chairman, general manager and deputy secretary of Party Committee of CNPGC from October 2009 to present. Mr. SHE has been the chairman and legal representative of Sinopharm Industrial Investment Co. Ltd. since July 2008. Mr. SHE was appointed the chairman of China National Medicines Corporation Ltd. (a company listed on the Shanghai Stock Exchange ("SSE")) from December 1998 to January 2001, and has served as the chairman of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange) since 30 August 2007.

Mr. LIU Cunzhou, aged 68, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has 37 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the SSE.

Mr. DONG Zenghe, aged 47, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has about 24 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Excange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.*) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of 中國藥材公司 (China National Corp. of Traditional & Herbal Medicine*) since June 2012.

Mr. ZHAO Dongji, aged 44, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has 23 years of related working experience, including 12 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the chief investment officer and manager of Investment Management Department of China National Corp. of Traditional & Herbal Medicine since 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 64, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 29 years of working experience, including over 12 years working experiences in China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000, and has been a director of China Everbright Research Limited since March 2000 to present. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special

Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009.

Mr. XIE Rong, aged 61, was appointed to the Board on 5 February 2013. Mr. XIE has around 44 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE) and China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE) from May 2003 to May 2009, from June 2003 to May 2010 and from February 2007 to October 2012, respectively. Mr. XIE has been an independent non-executive director of each of Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE), Shanghai Baosight Software Co. Ltd. (a company listed on the SSE), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and China Everbright Bank Company Limited (a company listed on the SSE) since April 2008, April 2010, August 2007 and January 2013, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee, a standing commissioner of the China Auditing Institute and a standing commissioner of the China Accounting Institute.

Mr. FANG Shuting, aged 65, was appointed to the Board on 5 February 2013. Mr. FANG graduated from Beijing Traditional Chinese Medication Institute majoring in traditional Chinese medicine in November 1974. He was a faculty member and deputy chief of academic affairs division of Beijing Traditional Chinese Medication Institute from November 1974 to January 1985. Mr. FANG worked in the Ministry of Health from January 1985 to February 1989 and was deputy head of the quality control department of State Administration of Traditional Chinese Medicine from February 1989 to June 1990. He worked at the Institute of Traditional Chinese Medicine Research from June 1990 to November 2000. From November 2000 to October 2008, Mr. FANG was the vice-president of State Administration of Traditional Chinese Medicine. He has been the chairman of the China Association of Traditional Chinese Medicine since September 2005.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Winteam Pharmaceutical Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Winteam Pharmaceutical Group Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 47 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and 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 Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Turnover	*3(a)*	**1,268,143**	1,015,935
Cost of sales		**(574,915)**	(467,529)
Gross profit		**693,228**	548,406
Other revenue	*4*	**30,872**	12,306
Other net income	*4*	**242**	625
Selling and distribution costs		**(289,651)**	(328,642)
Administrative expenses		**(144,876)**	(130,551)
Profit from operations		**289,815**	102,144
Finance costs	*5(a)*	**(23,831)**	(7,689)
Profit before taxation	*5*	**265,984**	94,455
Income tax	*6*	**(53,330)**	(20,747)
Profit for the year		**212,654**	73,708
Attributable to:			
Equity shareholders of the Company		**207,134**	72,072
Non-controlling interests		**5,520**	1,636
Profit for the year		**212,654**	73,708
Earnings per share			
Basic and diluted	*11*	**11.61 cents**	4.04 cents

The notes on pages 55 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Profit for the year		**212,654**	73,708
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries in the PRC		**(1,849)**	43,252
Available-for-sale securities: net movement in fair value reserve	*10*	**1,727**	(1,829)
		(122)	41,423
Total comprehensive income for the year		**212,532**	115,131
Attributable to:			
Equity shareholders of the Company		**207,050**	112,627
Non-controlling interests		**5,482**	2,504
Total comprehensive income for the year		**212,532**	115,131

The notes on pages 55 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Fixed assets			
– Investment properties	12	**3,394**	3,426
– Other property, plant and equipment	12	**411,676**	253,093
– Interests in leasehold land held for own use under operating leases	12	**102,123**	199,516
Construction in progress	13	**42,569**	87,861
Other receivables	19	**17,768**	37,707
		577,530	581,603
Intangible assets	14	**90,885**	101,646
Goodwill	15	**208,637**	208,644
Other financial assets	17	**10,639**	8,601
Deferred tax assets	25(b)	**24,617**	12,744
		912,308	913,238
Current assets			
Other financial assets	17	**94,692**	81,411
Inventories	18(a)	**198,614**	233,935
Trade and other receivables	19	**546,088**	346,891
Deposits with banks	20	**108,068**	4,919
Cash and cash equivalents	20	**57,050**	42,354
		1,004,512	709,510
Current liabilities			
Trade and other payables	21	**253,828**	240,798
Bank loans	22	**511,104**	340,570
Current taxation	25(a)	**31,993**	12,251
Current portion of deferred government grants	23	**3,797**	3,230
		800,722	596,849
Net current assets		**203,790**	112,661
Total assets less current liabilities		**1,116,098**	1,025,899

The notes on pages 55 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current liabilities			
Deferred tax liabilities	*25(b)*	**55,269**	52,097
Deferred government grants	*23*	**17,738**	9,487
		73,007	61,584
NET ASSETS		**1,043,091**	964,315
CAPITAL AND RESERVES			
Share capital	*26(c)*	**178,341**	178,341
Reserves		**843,691**	770,397
Total equity attributable to equity shareholders of the Company		**1,022,032**	948,738
Non-controlling interests		**21,059**	15,577
TOTAL EQUITY		**1,043,091**	964,315

Approved and authorised for issue by the board of directors on 23 March 2013.

WU Xian
Director

YANG Bin
Director

The notes on pages 55 to 112 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Investments in subsidiaries	*16*	**713,373**	710,256
Current assets			
Other receivables	*19*	**9,954**	105,730
Cash and cash equivalents	*20*	**2,767**	920
		12,721	106,650
Current liabilities			
Trade and other payables	*21*	**16,487**	17,393
		16,487	17,393
Net current (liabilities)/assets		**(3,766)**	89,257
NET ASSETS		**709,607**	799,513
CAPITAL AND RESERVES			
Share capital	*26(c)*	**178,341**	178,341
Reserves		**531,266**	621,172
TOTAL EQUITY		**709,607**	799,513

Approved and authorized for issue by the board of directors on 23 March 2013.

WU Xian
Director

YANG Bin
Director

The notes on pages 55 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Fair value reserve $'000	Other reserve note 26(j) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2011	178,341	529,514	297	118,142	50,761	6,568	(139,273)	91,309	835,659	13,525	849,184
Profit for the year	–	–	–	–	–	–	–	72,072	72,072	1,636	73,708
Other comprehensive income	–	–	–	42,384	–	(1,829)	–	–	40,555	868	41,423
Total comprehensive income for the year	–	–	–	42,384	–	(1,829)	–	72,072	112,627	2,504	115,131
Acquisition of non-controlling interest without a change in control	–	–	–	547	201	14	(310)	–	452	(452)	–
Transfer to reserve fund	–	–	–	–	9,486	–	–	(9,486)	–	–	–
At 31 December 2011	178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315

The notes on pages 55 to 112 form part of these financial statements.

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company										
	Note	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Fair value reserve $'000	Other reserve note 26(j) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2012		178,341	529,514	297	161,073	60,448	4,753	(139,583)	153,895	948,738	15,577	964,315
Profit for the year		–	–	–	–	–	–	–	207,134	207,134	5,520	212,654
Other comprehensive income		–	–	–	(1,811)	–	1,727	–	–	(84)	(38)	(122)
Total comprehensive income for the year		–	–	–	(1,811)	–	1,727	–	207,134	207,050	5,482	212,532
Dividend declared in respect of the previous year	*26(b)*	–	–	–	–	–	–	–	(133,756)	(133,756)	–	(133,756)
Transfer to reserve fund		–	–	–	–	28,385	–	–	(28,385)	–	–	–
At 31 December 2012		178,341	529,514	297	159,262	88,833	6,480	(139,583)	198,888	1,022,032	21,059	1,043,091

The notes on pages 55 to 112 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Cash generated from/(used in) operations	*20(b)*	**269,132**	(24,880)
PRC enterprise income tax paid		**(41,052)**	(29,809)
Net cash generated from/(used in) operating activities		**228,080**	(54,689)
Investing activities			
Payment for the purchase of fixed assets		**(34,881)**	(26,756)
Payment for the purchase of intangible assets		**–**	(628)
Proceeds from disposal of fixed assets		**(59)**	–
(Increase)/decrease in deposits with banks		**(103,149)**	55,956
Payment for construction in progress		**(88,282)**	(77,446)
Payment for purchase of available-for-sale securities		**–**	(206,466)
Proceeds from disposal of available-for sale securities		**–**	238,332
Cash consideration paid for the acquisition of a subsidiaries, net of cash acquired		**–**	(6,573)
Cash consideration paid for acquisition of non-controlling interests		**–**	(141,022)
Loan to a third party		**–**	(81,411)
Interest received		**2,301**	1,452
Net cash used in investing activities		**(224,070)**	(244,562)
Financing activities			
Proceeds from new bank loans		**692,205**	520,122
Repayment of bank loans		**(517,472)**	(288,846)
Dividend paid		**(133,756)**	–
Interest paid		**(30,284)**	(13,530)
Net cash generated from financing activities		**10,693**	217,746
Net increase/(decrease) in cash and cash equivalents		**14,703**	(81,505)
Cash and cash equivalents at 1 January		**42,354**	120,012
Effect of foreign exchange rate changes		**(7)**	3,847
Cash and cash equivalents at 31 December		**57,050**	42,354

The notes on pages 55 to 112 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value as explained in accounting policy set out in note 1(f).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

The adoption of the new and revised IFRSs has no significant impact on the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-Group balances and transactions and any unrealised profits arising from intra-Group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measure any non-controlling interests at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES

(d) Subsidiaries and non-controlling interests

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investment in subsidiaries are stated at cost less impairment losses (see note 1(m)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or Groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities and other financial instruments

The Group's and the Company's policies for investments in equity securities and other financial instruments, other than investments in subsidiaries, are classified as available-for-sale securities, which are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently accounted for as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES

(f) Other investments in equity securities and other financial instruments

Other investments in equity securities and other financial instruments are remeasured at fair value at the end of each reporting period with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(v)(iii). When these investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investment are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

(h) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(v)(ii).

(i) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES

(i) Other property, plant and equipment

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment	10-15 years
– Motor vehicles	5-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(m)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES

(k) Intangible assets (other than goodwill)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	product protection rights	over the product protection period
–	trademarks	10-50 years
–	distribution network	10 years
–	customer relationship	3 years
–	Software	3-5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)).

1 SIGNIFICANT ACCOUNTING POLICIES

(l) Leased assets

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)).

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and trade and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

1 SIGNIFICANT ACCOUNTING POLICIES

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and trade and other receivables

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES

(m) Impairment of assets

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– construction in progress;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Group of units) and then, to reduce the carrying amount of the other assets in the unit (or Group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES

(m) Impairment of assets

(ii) Impairment of other assets

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(m)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES

(t) Income tax

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

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

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES

(y) Related parties

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Note 12(b), 15 and 27 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

(b) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2012 **$'000**	2011 $'000
Sales of pharmaceutical products		
– Pills and tablets	**630,321**	484,633
– Granules	**218,049**	130,200
– Injections	**92,496**	88,649
– Medicine wine	**106,677**	82,845
– Others	**220,600**	229,608
	1,268,143	1,015,935

Further details regarding the Group's principal activities are described below:

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(i) Segment results, assets and liabilities

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

Year ended 31 December 2012

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	Luya $'000	Feng Liao Xing Material & Slices $'000	Winteam Sales $'000	Total $'000
Revenue from external customers	388,997	253,671	380,318	78,642	154,985	758,172	2,014,785
Inter-segment revenue	(212,314)	(166,956)	(226,153)	(11,498)	(129,721)	–	(746,642)
Reportable segment revenue	**176,683**	**86,715**	**154,165**	**67,144**	**25,264**	**758,172**	**1,268,143**
Reportable segment profit (adjusted EBITDA)	**119,220**	**42,229**	**144,362**	**24,873**	**6,382**	**(80)**	**336,986**
Interest income	979	68	23,661	–	–	200	24,908
Interest expenses	6,214	4,974	9,691	–	2,865	87	23,831
Depreciation and amortisation for the year	15,307	7,365	15,902	7,394	322	403	46,693
Reportable segment assets	**771,398**	**377,016**	**290,652**	**174,824**	**62,879**	**350,200**	**2,026,969**
Additions to non-current assets during the year	90,732	6,976	21,430	9,904	504	68	129,614
Reportable segment liabilities	**217,580**	**106,616**	**208,691**	**14,544**	**36,657**	**351,422**	**935,510**

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(i) Segment results, assets and liabilities

Year ended 31 December 2011

	Dezhong $'000	Feng Liao Xing $'000	Guangdong Medi-World $'000	Luya $'000	Feng Liao Xing Material & Slices $'000	Winteam Sales $'000	Total $'000
Revenue from external customers	346,472	235,693	313,221	85,686	202,779	11,891	1,195,742
Inter-segment revenue	(729)	(1,248)	(111)	–	(177,719)	–	(179,807)
Reportable segment revenue	345,743	234,445	313,110	85,686	25,060	11,891	1,015,935
Reportable segment profit (adjusted EBITDA)	68,533	22,101	35,919	29,240	8,870	1,322	165,985
Interest income	579	51	739	22	54	7	1,452
Interest expenses	2,045	546	2,908	–	2,190	–	7,689
Depreciation and amortisation for the year	24,009	9,754	15,171	8,091	66	15	57,106
Reportable segment assets	812,932	354,174	476,924	174,627	252,546	42,301	2,113,504
Additions to non-current assets during the year	85,212	8,867	13,880	2,095	527	8,188	118,769
Reportable segment liabilities	312,554	117,379	482,646	11,864	228,793	32,459	1,185,695

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2012 **$'000**	2011 $'000
Revenue		
Reportable segment revenue	**2,014,785**	1,195,742
Elimination of inter-segment revenue	**(746,642)**	(179,807)
Consolidated turnover	**1,268,143**	1,015,935
Profit		
Reportable segment profit	**336,986**	165,985
Elimination of inter-segment profits	**(13,224)**	(4,146)
Reportable segment profit derived from the Group's external customers	**323,762**	161,839
Other revenue and net income	**31,114**	12,931
Depreciation and amortisation	**(46,693)**	(57,106)
Finance costs	**(23,831)**	(7,689)
Unallocated head office and corporate expenses	**(18,368)**	(15,520)
Consolidated profit before taxation	**265,984**	94,455

3 TURNOVER AND SEGMENT REPORTING

(b) Segment reporting

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	At 31 December 2012 $'000	At 31 December 2011 $'000
Assets		
Reportable segment assets	**2,026,969**	2,113,504
Elimination of inter-segment receivables	**(240,818)**	(601,081)
	1,786,151	1,512,423
Non-current financial assets	**10,639**	8,601
Current financial assets	**94,692**	81,411
Deferred tax assets	**24,617**	12,744
Unallocated head office and corporate assets	**721**	7,569
Consolidated total assets	**1,916,820**	1,622,748
Liabilities		
Reportable segment liabilities	**935,510**	1,185,695
Elimination of inter-segment payables	**(240,818)**	(601,081)
	694,692	584,614
Current tax liabilities	**31,993**	12,251
Deferred tax liabilities	**55,269**	52,097
Unallocated head office and corporate liabilities	**91,775**	9,471
Consolidated total liabilities	**873,729**	658,433

(iii) Geographic information

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

4 OTHER REVENUE AND NET INCOME

	2012 $'000	2011 $'000
Other revenue		
Government grants (note 23)	**4,960**	9,432
Interest income^	**24,908**	1,452
Rental income	**1,004**	1,422
	30,872	12,306

^ The interest income includes $8,332,000 (2011: Nil) from the loan to Guizhou Zhongtai Biological Technology Co., Ltd. (note 17) and $14,226,000 (2011: Nil) receivables from the government as a result of the disposal of land use right located in Foshan. The government agreed to pay an interest on outstanding balance, calculated at the one year benchmark lending rate of People's Bank of China.

	2012 $'000	2011 $'000
Other net income		
Net loss on disposal of fixed assets	**(444)**	(124)
Available-for-sale securities:		
– gain on disposal reclassified from equity (note 10)	**–**	854
Exchange gain/(loss)	**998**	(6)
Others	**(312)**	(99)
	242	625

5 PROFIT BEFORE TAXATION

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

	2012 $'000	2011 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**30,284**	13,530
Less:interest expense capitalised into construction in progress*	**(6,453)**	(5,841)
	23,831	7,689

* The borrowing costs have been capitalised at a rate of 5.400%-7.870% per annum (2011: 5.355%-7.095%).

	2012 $'000	2011 $'000
(b) Staff costs:		
Salaries, wages and other benefits	**166,850**	132,978
Contributions to defined contribution retirement plans	**17,750**	15,234
	184,600	148,212
(c) Other items		
Auditors' remuneration	**2,371**	3,014
Depreciation		
– investment properties	**30**	180
– assets held for use under operating leases	**2,430**	2,499
– other property, plant and equipment	**33,526**	34,059
Amortisation		
– intangible assets	**10,707**	20,368
Impairment losses recognised/(reversed)		
– trade and other receivables	**2,701**	(345)
Operating lease charges: minimum lease payments	**5,355**	4,643
Research and development costs	**42,862**	41,506
Rentals receivable from investment properties	**(1,004)**	(1,422)
Cost of inventories# (note 18)	**575,512**	468,934

Cost of inventories includes $91,109,000 (2011: $102,662,000) relating to staff cost, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012	2011
	$'000	$'000
Current tax		
PRC enterprise income tax for the year	**57,197**	27,935
Under-provision in respect of prior years	**843**	623
	58,040	28,558
Deferred tax		
Reversal of temporary differences	**(4,710)**	(7,811)
	53,330	20,747

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2011: Nil).

Pursuant to the Corporate Income Tax Law of PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing"), Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong") and Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% in 2012 (2011: 15%) pursuant to documents issued jointly by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of the State Administration of Taxation and Guangdong Provincial Local Taxation Bureau.

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group is subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012 **$'000**	2011 $'000
Profit before taxation	**265,984**	94,455
Notional tax on profit before taxation, calculated at rates applicable to profit in the jurisdictions concerned	**69,010**	25,105
Tax effect on non-deductible expenses	**2,036**	3,397
Income tax concessions	**(28,365)**	(10,012)
Withholding tax on undistributed profits of PRC subsidiaries	**9,806**	1,634
Under-provision in respect of prior year	**843**	623
Actual tax expense	**53,330**	20,747

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2012				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	180	1,280	668	50	2,178
Situ Min	180	650	400	60	1,290
Li Songquan	43	157	–	8	208
Xu Tiefeng	180	974	480	36	1,670
Non–executive director					
Du Richeng	180	–	–	–	180
Independent non–executive directors					
Pang Fu Keung	180	–	–	–	180
Lo Wing Yat	180	–	–	–	180
Wang Bo	180	–	–	–	180
Zhang Jianhui	180	–	–	–	180
	1,483	3,061	1,548	154	6,246

7 DIRECTORS' REMUNERATION

	2011				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Yang Bin	180	1,275	501	52	2,008
Situ Min	180	650	300	40	1,170
Li Songquan	180	650	300	30	1,160
Xu Tiefeng	180	970	360	37	1,547
Non–executive director					
Du Richeng	180	–	–	–	180
Independent non–executive directors					
Pang Fu Keung	180	–	–	–	180
Lo Wing Yat	180	–	–	–	180
Wang Bo	180	–	–	–	180
Zhang Jianhui	180	–	–	–	180
	1,620	3,545	1,461	159	6,785

Mr. Li Songquan resigned as an executive director and the Deputy Managing Director with effect from 28 March 2012.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2011: four) are directors whose remuneration is disclosed in note 7. The aggregate of the emoluments in respect of the other two (2011: one) individual was as follows:

	2012 $'000	2011 $'000
Salaries and other emoluments	**652**	348
Retirement scheme contributions	**45**	20
	697	368

The emoluments of the two (2011: one) individual with highest emoluments are within the following band:

	2012 Number of individuals	2011 Number of individuals
$		
Nil – 1,000,000	**2**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $7,950,000 (2011: loss of $15,477,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2012 $'000	2011 $'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(7,950)**	(15,477)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**51,800**	105,700
Company's profit/(loss) for the year (note 26(a))	**43,850**	90,223

Details of dividends paid and payable to equity shareholders of the Company are set out in note 26(b).

10 OTHER COMPREHENSIVE INCOME

	2012	2011
	$'000	$'000
Available-for-sale securities	**2,032**	(1,298)
Gain on disposal transferred to profit or losses (note 4)	**–**	(854)
Income tax effect on the change in fair value recognised during the year	**(305)**	323
	1,727	(1,829)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $207,134,000 (2011: $72,072,000) and the weighted average of 1,783,410,807 ordinary shares (2011: 1,783,410,807 ordinary shares) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years.

12 FIXED ASSETS

		The Group							
		Buildings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Cost:									
At 1 January 2011		135,338	187,384	8,923	55,830	387,475	7,209	201,472	596,156
Additions		3,135	18,621	2,525	8,390	32,671	–	–	32,671
Acquisition of a subsidiary		–	–	519	52	571	–	–	571
Transfer from construction in progress	(note 13)	2,390	2,491	–	–	4,881	–	–	4,881
Disposals		–	(218)	–	(876)	(1,094)	–	–	(1,094)
Exchange adjustments		6,840	9,737	455	2,884	19,916	358	10,224	30,498
At 31 December 2011		147,703	218,015	12,422	66,280	444,420	7,567	211,696	663,683
At 1 January 2012		147,703	218,015	12,422	66,280	444,420	7,567	211,696	663,683
Additions		14,476	21,309	1,472	4,077	41,334	–	–	41,334
Transfer from construction in progress	(note 13)	134,110	18,933	–	297	153,340	–	–	153,340
Disposals	(note 4)	(501)	(591)	(192)	(762)	(2,046)	–	(94,729)	(96,775)
Exchange adjustments		(1,494)	(2,335)	(133)	(798)	(4,760)	(2)	(359)	(5,121)
At 31 December 2012		294,294	255,331	13,569	69,094	632,288	7,565	116,608	756,461
Accumulated depreciation and amortisation:									
At 1 January 2011		14,792	103,743	3,824	27,616	149,975	3,738	8,928	162,641
Charge for the year		7,305	19,836	1,384	5,534	34,059	180	2,499	36,738
Written back on disposals		–	(189)	–	(781)	(970)	–	–	(970)
Exchange adjustments		885	5,528	355	1,495	8,263	223	753	9,239
At 31 December 2011		22,982	128,918	5,563	33,864	191,327	4,141	12,180	207,648
At 1 January 2012		22,982	128,918	5,563	33,864	191,327	4,141	12,180	207,648
Charge for the year		6,211	20,220	5,366	1,729	33,526	30	2,430	35,986
Written back on disposals		(450)	(518)	(69)	(624)	(1,661)	–	–	(1,661)
Exchange adjustments		(324)	(1,694)	(79)	(483)	(2,580)	–	(125)	(2,705)
At 31 December 2012		28,419	146,926	10,781	34,486	220,612	4,171	14,485	239,268
Net book value:									
At 31 December 2012		265,875	108,405	2,788	34,608	411,676	3,394	102,123	517,193
At 31 December 2011		124,721	89,097	6,859	32,416	253,093	3,426	199,516	456,035

12 FIXED ASSETS

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 years in the PRC. At 31 December 2012, the remaining period of the land use rights ranged from 26 years to 48 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2012 **$'000**	2011 $'000
Within 1 year	**460**	553
After 1 year but within 5 years	**–**	–
	460	553

All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2012 is $21,188,000 (2011: $15,770,000) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2012 and 31 December 2011 were both carried out respectively by Roma Appraisals Limited, an independent firms of professional surveyors.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of $73,520,000 were pledged as securities of bank loans of the Group as at 31 December 2012 (see note 22) (2011: $69,278,000).

13 CONSTRUCTION IN PROGRESS

	The Group	
	2012 **$'000**	2011 $'000
At 1 January	**87,861**	41,745
Additions	**108,219**	48,012
Transfer to fixed assets (note 12)	**(153,340)**	(4,881)
Exchange adjustments	**(171)**	2,985
At 31 December	**42,569**	87,861

Construction in progress mainly represents premises and equipments under construction as at 31 December 2012.

14 INTANGIBLE ASSETS

	The Group					
	Product protection rights $'000	Trademarks $'000	Distribution network $'000	Software $'000	Customer relationship $'000	Total $'000
Cost:						
At 1 January 2011	76,858	57,232	69,338	308	–	203,736
Additions	–	–	–	628	–	628
Acquisition of a subsidiary	–	–	–	–	913	913
Exchange adjustments	3,813	2,840	3,439	28	5	10,125
At 31 December 2011	80,671	60,072	72,777	964	918	215,402
At 1 January 2012	80,671	60,072	72,777	964	918	215,402
Exchange adjustments	(13)	(20)	(11)	–	–	(44)
At 31 December 2012	80,658	60,052	72,766	964	918	215,358
Accumulated amortisation and impairment loss:						
At 1 January 2011	67,200	8,058	13,291	13	–	88,562
Amortisation for the year	9,925	2,966	7,127	350	–	20,368
Exchange adjustments	3,546	463	808	9	–	4,826
At 31 December 2011	80,671	11,487	21,226	372	–	113,756
At 1 January 2012	80,671	11,487	21,226	372	–	113,756
Amortisation for the year	–	3,017	7,252	240	198	10,707
Exchange adjustments	(13)	10	11	1	1	10
At 31 December 2012	80,658	14,514	28,489	613	199	124,473
Net book value:						
At 31 December 2012	–	45,538	44,277	351	719	90,885
At 31 December 2011	–	48,585	51,551	592	918	101,646

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

15 GOODWILL

	The Group	
	2012	2011
	$'000	$'000
Cost and carrying amount:		
At 1 January	**208,644**	192,578
Addition acquired through business combination	**–**	6,614
Exchange adjustments	**(7)**	9,452
At 31 December	**208,637**	208,644

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified as follows:

	The Group	
	2012	2011
	$'000	$'000
Manufacture and sale of pharmaceutical products – Dezhong	**123,828**	123,832
Manufacture and sale of pharmaceutical products – Feng Liao Xing	**29,187**	29,188
Manufacture and sale of pharmaceutical products – Guangdong Medi-World	**32,016**	32,017
Manufacture and sale of pharmaceutical products – Luya	**13,936**	13,937
Sale of pharmaceutical products – Feng Liao Xing Material & Slices	**3,021**	3,021
Sale of pharmaceutical products – Winteam Sales	**6,649**	6,649
	208,637	208,644

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a one-year period and extrapolated to cover a period of nine more years with an estimated increase in selling prices and costs of 7% (2011: 4.5%) and no growth in sales volume. The rates used to discount the forecast cash flows at 12% (2011: 12% to 14.72%).

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	$'000	$'000
Unlisted shares, at cost	**529,542**	529,542
Amounts due from subsidiaries	**183,831**	180,714
	713,373	710,256

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be recoverable within twelve months from the Company's date of financial position and are therefore shown in the Company's statement of financial position as non-current assets.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2012.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Dezhong (note (i))	The PRC 1 November 1998	US$6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing (note (i))	The PRC 16 March 2000	US$7,526,100	–	98.00%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World (note (ii))	The PRC 13 November 1992	US$25,060,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya (note (iii))	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Feng Liao Xing Material & Slices (note (iv))	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Winteam Sales (note iv)	The PRC 1 August 2002	RMB10,000,000	–	100%	Trading of pharmaceutical products

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 31 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 15 years expiring on 6 November 2015.

(iv) Feng Liao Xing Material & Slices and Winteam Sales were established pursuant to the Company Law of the PRC.

17 OTHER FINANCIAL ASSETS

	The Group	
	2012	2011
	$'000	$'000
Non-current		
Available-for-sale equity securities		
– Listed in the PRC, at fair value	**9,393**	7,355
– Unlisted equity securities, at cost	**1,246**	1,246
	10,639	8,601
Current		
Loan to a third party	**94,692**	81,411
	105,331	90,012
Market value of listed securities	**9,393**	7,355

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

Pursuant to a conditional investment agreement dated 22 December 2011 entered into among a wholly-owned subsidiary of the Group, Guangdong Medi-World and Henan Xintai Medicine Company Limited ("Henan Xintai") and Guizhou Zhongtai Biological Technology Company Limited ("Guizhou Zhongtai", a wholly-owned subsidiary of Henan Xintai) ("the Investment Agreement"), Henan Xintai has agreed that Guizhou Zhongtai will increase its registered capital ("Increased Capital") and Guangdong Medi-World has agreed to invest in the Increased Capital of Guizhou Zhongtai for a cash consideration of RMB153 million (approximately $184 million). The Increased Capital represented 51% of the entire registered capital of Guizhou Zhongtai.

In conjunction with the Investment Agreement, Guangdong Medi-World and Guizhou Zhongtai also entered into a Loan Agreement on 22 December 2011 pursuant to which Guangdong Medi-World agreed to advance a loan in the amount of RMB70 million (approximately $86 million) to Guizhou Zhongtai. The loan is interest 8.53% at annum, secured by a charge over the existing shareholding in Guizhou Zhongtai held by Henan Xintai, and shall be utilized by Guizhou Zhongtai for repayment of the shareholder's loan owned by Guizhou Zhongtai to Henan Xintai. The loan is deemed to be repayable after the payment of the first installment of the consideration for the investment.

The balance above represents the principal amount of $86,331,000 and related interest receivable of $8,361,000.

Neither the available-for-sale equity securities nor the loan to a third party are past due or impaired.

18 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2012 $'000	2011 $'000
Raw materials	**73,009**	65,078
Work in progress	**54,825**	71,479
Finished goods	**54,726**	84,502
	182,560	221,059
Packaging materials	**11,107**	8,172
Low value consumables	**4,947**	4,704
	198,614	233,935

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2012 $'000	2011 $'000
Carrying amount of inventories sold	**574,915**	467,529
Write down of inventories	**597**	1,405
	575,512	468,934

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Current				
Trade receivables	**211,092**	181,831	**–**	–
Bills receivables	**205,006**	150,417	**–**	–
Less: allowance for doubtful debt (note 19(b))	**(11,685)**	(11,378)	**–**	–
	404,413	320,870	**–**	–
Other receivables	**141,675**	26,021	**9,954**	105,730
	546,088	346,891	**9,954**	105,730
Non-current				
Other receivables	**17,768**	37,707	**–**	–
	563,856	384,598	**9,954**	105,730

Non-current other receivables represent the prepayments for construction works and equipment amounted to $17,768,000 (2011: $37,707,000).

Bills receivables with carrying value of $52,816,000 (2011: $11,349,000) were pledged as securities of bank loan of the Group as at 31 December 2012 (see note 22).

(a) Ageing analysis

As of the end of the financial year, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 3 months of invoice date	**164,092**	148,465
3 to 6 months after invoice date	**18,432**	15,022
More than 6 months less than 12 months after invoice date	**16,883**	6,966
More than 12 months after invoice date	**11,685**	11,378
	211,092	181,831

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 27(a).

19 TRADE AND OTHER RECEIVABLES

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(m)(i)).

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**11,378**	11,176
Impairment loss recognised/(reversed)	**309**	(345)
Exchange adjustments	**(2)**	547
At 31 December	**11,685**	11,378

At 31 December 2012, the Group's gross trade receivables of $11,685,000 (2011: $11,378,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of $11,685,000 were recognised (2011: $11,378,000). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 3 months of invoice date	**164,092**	148,465
3 to 6 months after invoice date	**18,432**	15,022
More than 6 months less than 12 months after invoice date	**16,883**	6,966
	199,407	170,453

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

19 TRADE AND OTHER RECEIVABLES

(c) Trade and bills receivables that are not impaired

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**108,068**	4,919	**–**	–
Cash at bank and in hand	**57,050**	42,354	**2,767**	920
Cash and cash equivalents in the statement of financial position	**165,118**	47,273	**2,767**	920
Less: Bank deposits with maturity beyond three months (note 1)	**(108,068)**	(4,919)	**–**	–
Cash and cash equivalents	**57,050**	42,354	**2,767**	920

Note 1: Certain bank deposits with carrying amount of $107,209,000 were pledged as securities for banking facilities (2011: Nil) (see note 22).

20 CASH AND CASH EQUIVALENTS

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

		2012	2011
		$'000	$'000
Operating activities			
Profit before taxation		**265,984**	94,455
Adjustments for:			
Depreciation and amortisation		**46,693**	57,106
Impairment loss recognised/(reversed) on trade and other receivables	*5(c)*	**2,701**	(345)
Finance costs	*5(a)*	**23,831**	7,689
Interest income	*4*	**(24,908)**	(1,452)
Loss on disposal of fixed assets	*4*	**444**	124
Foreign exchange loss		**(5,197)**	1,561
Decrease/(increase) in inventories		**35,321**	(58,254)
Increase in trade and other receivables		**(97,585)**	(112,826)
Increase/(decrease) in trade and other payables		**21,848**	(12,938)
Cash generated from/(used in) operations		**269,132**	(24,880)

21 TRADE AND OTHER PAYABLES

	The Group		**The Company**	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade creditors	**101,377**	97,621	**–**	–
Other creditors and accrued charges	**138,235**	134,693	**16,487**	17,393
Advances received from customers	**14,216**	8,484	**–**	–
	253,828	240,798	**16,487**	17,393

As of the end of the financial year, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2012	2011
	$'000	$'000
Due within 1 month or on demand	**101,377**	97,621

21 TRADE AND OTHER PAYABLES

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

All of the trade and other payables are expected to be settled within one year or payable on demand.

22 BANK LOANS

At 31 December 2012, the Group's bank loans were repayable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year or on demand	**511,104**	340,570

At 31 December 2012, the Group's bank loans were secured as follows:

	The Group	
	2012	2011
	$'000	$'000
Bank loans		
Secured	**313,776**	161,711
Unsecured	**197,328**	178,859
	511,104	340,570

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2012	At 31 December 2011
	$'000	$'000
Interests in leasehold land and buildings (note 12(c))	**73,520**	69,278
Deposits with banks (note 20)	**107,209**	–
Bills receivables (note 19)	**52,816**	11,349
	233,545	80,627

Apart from the above secured assets, interest in leasehold land held by Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical"), a company in which Mr. Yang Bin and Mr. Xu Tiefeng (note 29(b)) jointly hold 72.7% equity interest as at 31 December 2012, was pledged as security for bank loans as at 31 December 2011 and 2012.

22 BANK LOANS

(ii) As at 31 December 2012, bank loan of $39,466,000 was guaranteed by Mr. Yang Bin. (31 December 2011: Nil).

(iii) Banking facilities of $560,435,000 (31 December 2011: $225,484,000) were utilised to the extent of $511,104,000(31 December 2011: $185,025,000). The bank loans drawn were secured by assets as set out in note 22(i).

Parts of the Group's banking facilities, amounted to $165,583,000 (2011: $111,015,000) are subject to the fulfilment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2012, none of the covenants relating to drawn down facilities had been breached (2011: Nil).

23 DEFERRED GOVERNMENT GRANTS

The Group has been awarded various government grants for technological improvements and for research and development on new and existing pharmaceutical products. Deferred government grants represent the portion of government grants that compensate the Group for expenses to be incurred in future periods. The portion of deferred government grants that will be recognised as income in the next year amounted to $3,797,000 (2011: $3,230,000) has been classified as current and the remaining portion of $17,738,000 (2011: $9,487,000) has been classified as non-current.

24 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $25,000.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2012	2011
	$'000	$'000
Provision for corporate income tax for the year	**60,794**	28,558
Corporate income tax paid	**(41,052)**	(29,809)
	19,742	(1,251)
Acquisition of a subsidiary	**–**	36
Balance of PRC corporate income tax relating to prior year	**12,251**	13,466
	31,993	12,251

(b) Deferred tax assets/(liabilities) recognised

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

	Intangible assets	Depreciation allowances in excess of related depreciation	Allowance for impairment of doubtful debts	Available-for-sale securities	Withholding tax on undistributed profits of PRC subsidiaries	Unrealized inter-segment profit	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2011	(27,662)	(16,791)	6,014	(1,346)	(12,949)	1,076	5,958	(45,700)
Addition through acquisition	(228)	–	–	–	–	–	–	(228)
Credited/(charged) to profit or loss	4,983	1,073	(138)	–	2,682	568	(1,357)	7,811
Charged to reserves	–	–	–	323	–	–	–	323
Exchange adjustments	(1,916)	(186)	296	(60)	(23)	65	265	(1,559)
At 31 December 2011	(24,823)	(15,904)	6,172	(1,083)	(10,290)	1,709	4,866	(39,353)
At 1 January 2012	(24,823)	(15,904)	6,172	(1,083)	(10,290)	1,709	4,866	(39,353)
Credited/(charged) to profit or loss	1,935	746	558	–	(9,806)	4,833	6,444	4,710
Charged to reserves	–	–	–	(305)	–	–	–	(305)
Transferred to current tax	–	–	–	–	2,754	–	–	2,754
Exchange adjustments	1,089	419	(2)	(1)	–	16	21	1,542
At 31 December 2012	(21,799)	(14,739)	6,728	(1,389)	(17,342)	6,558	11,331	(30,652)

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(b) Deferred tax assets/(liabilities) recognised

Reconciliation to the consolidated statement of financial position:

	The Group	
	2012	2011
	$'000	$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**24,617**	12,744
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(55,269)**	(52,097)
	(30,652)	(39,353)

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Retained profits $'000	Total $'000
At 1 January 2011	178,341	529,514	297	1,138	709,290
Profit and other comprehensive income for the year	–	–	–	90,223	90,223
At 31 December 2011	178,341	529,514	297	91,361	799,513
At 1 January 2012	178,341	529,514	297	91,361	799,513
Profit and other comprehensive income for the year	–	–	–	43,850	43,850
Dividends declared in respect of the previous year	–	–	–	(133,756)	(133,756)
At 31 December 2012	178,341	529,514	297	1,455	709,607

26 CAPITAL AND RESERVES

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

	2012 **$'000**	2011 $'000
Interim dividend declared and paid of 2.5 cents per ordinary share (2011: Nil)	**44,585**	–
Final dividend proposed after the end of the financial year of nil cent per ordinary share (2011: 5 cents per ordinary share)	**–**	89,171

(c) Share capital

	2012		2011	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorised:				
Ordinary shares of $ 0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1,783,411**	**178,341**	1,783,411	178,341

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H, respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations in the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

26 CAPITAL AND RESERVES

(f) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the financial year, and is dealt with in accordance with the accounting policy set out in note 1(f).

(h) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(i) Distributability of reserves

At 31 December 2012, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was $1,455,000 (2011: $91,361,000).

(j) Other reserve

Other reserve amounted to $139,583,000 represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

(k) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

26 CAPITAL AND RESERVES

(k) Capital management

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2012 and 2011 are as follows:

	2012 **$'000**	2011 $'000
Current liabilities:		
Trade and other payables	**253,828**	240,798
Bank loans	**511,104**	340,570
	764,932	581,368
Add: Proposed dividends	**–**	89,171
Less: Cash and cash equivalents	**57,050**	42,354
Adjusted net debt	**707,882**	628,185
Total equity	**1,043,091**	964,315
Less: Proposed dividends	**–**	89,171
Adjusted equity	**1,043,091**	875,144
Adjusted net debt-to-equity ratio	**68%**	72%

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note 22, neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2012, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(b) Liquidity risk

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group and the Company can be required to pay):

The Group

	2012			2011		
	Carrying amount $'000	**Total contractual undiscounted cash flow $'000**	**Within 1 year or on demand $'000**	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	**253,828**	**(253,828)**	**(253,828)**	240,798	(240,798)	(240,798)
Bank loans	**511,104**	**(527,002)**	**(527,002)**	340,570	(355,390)	(355,390)
	764,932	**(780,830)**	**(780,830)**	581,368	(596,188)	(596,188)

The Company

	2012			2011		
	Carrying amount $'000	**Total contractual undiscounted cash flow $'000**	**Within 1 year or on demand $'000**	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	**16,487**	**(16,487)**	**(16,487)**	17,393	(17,393)	(17,393)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(c) Interest rate risk

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period.

	2012		2011	
	Effective interest rate %	**One year or less $'000**	Effective interest rate %	One year or less $'000
Variable rate borrowings:				
Bank loans	**6.75%**	**511,104**	6.23%	340,570

(ii) Sensitivity analysis

As at 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately $2,570,000 (2011: $2,895,000). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest risk for financial investments in existence at those dates.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, Dezhong, Feng Liao Xing, Guangdong Medi-World, Luya, Feng Liao Xing Material & Slices and Winteam Sales mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 17), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(e) Equity price risk

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in share price $'000	**2012 Effect on equity $'000**	2011 Effect on equity
Change in market price of equity investments:			
– increase	20%	**1,879**	1,250
– decrease	(20%)	**(1,879)**	(1,250)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2011.

(f) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(f) Fair values

	2012				2011			
	level 1	**level 2**	**level 3**	**Total**	level 1	level 2	level 3	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Assets								
Available-for-sale equity securities:								
– Listed in the PRC	**9,393**	**–**	**–**	**9,393**	7,355	–	–	7,355
	9,393	**–**	**–**	**9,393**	7,355	–	–	7,355

28 COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	$'000	$'000
Contracted for	**224,520**	263,071

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**3,959**	4,800
After 1 year but within 5 years	**5,473**	9,083
	9,432	13,883

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for an average term of two years with fixed rental. The lease did not include any contingent rentals.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 8, is as follows:

	2012	2011
	$'000	$'000
Short-term employee benefits	**6,773**	6,974
Post-employments benefits	**170**	179
	6,943	7,153

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the year ended 31 December 2012, the following parties were considered as related party transaction of the Group as they are under the control of key management personnel of the Group:

Name of related party	**Relationship as at 31 December 2011**	**Relationship as at 31 December 2012**
Hanyu Pharmaceutical	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng, directors of the Company
Zhejiang Dongying Pharmaceutical Co., Ltd. ("Zhejiang Dongying")	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng	Effectively 20% owned by Mr. Yang Bin and 20% owned by Mr. Xu Tiefeng
Sino Famous Trading Limited ("Sino")	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong	Effectively 50% owned by Mr. Xu Tiefeng and 50% owned by Mr. Wu Chiu Kong
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin	Effectively 100% owned by Mr. Yang Bin

29 MATERIAL RELATED PARTY TRANSACTIONS

(b) Other related party transactions

Note (i):

Particulars of significant transactions between the Group and the related parties are as follows:

	Year ended 31 December	
	2012	2011
	$'000	$'000
(Settlement from)/Payment on behalf of:		
Sino	**(2,419)**	2,249
Kimlong	**(1,977)**	1,838
Zhejiang Dong Ying	**(4,070)**	3,986
	(8,466)	8,073

As at 31 December 2012, the Group's trade and other receivable balances due from related parties are as below:

	Year ended 31 December	
	2012	2011
	$'000	$'000
Zhejiang Dongying	**–**	4,071
Sino	**–**	2,297
Kimlong	**–**	1,877
	–	8,245

As at 31 December 2012, bank loans of $110,997,000 (2011: $111,015,000) were secured by interest in leasehold land held by Hanyu Pharmaceutical.

None of the above related party transactions fall under the definition of connected transaction or continuing connected transaction as defined in chapter 14A of the Listing Rules.

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In January 2013, with approval of local government, Guangdong Medi-World invested RMB23 million (approximately $28 million). Pursuant to the investment agreement, the first consideration is RMB93 million (approximately $115 million) and the remaining balance of RMB70 million (approximately $86 million) will be paid after Guizhou Zhongtai repay the loan (note 17). Guizhou Zhongtai will become the subsidiary of the Group upon the completion of the transaction above.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements – *Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 July 2012
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Disclosures-Offsetting financial assets and financial Liabilities	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.