ANNUAL REPORT
2012

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

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


聯邦制藥
UNITED LABORATORIES
联邦制药


复方水杨酸甲酯乳膏
Compound Methyl Salicylate Cream

Contents

2012 CORPORATE CALENDAR OF THE UNITED LABORATORIES

1 January 2012

Ampicillin of the United Laboratories passed COS certification and obtained CEP certificate from EDQM.

2 February 2012

Zhuhai United Laboratories Co. Ltd ranked No. 1 in the list of Chinese antibiotic bulk drug export enterprises in 2011. Besides, United Laboratories (Inner Mongolia) Limited and United Laboratories (Chengdu) Limited ranked eleventh and seventeenth respectively in that list.

The United Laboratories International Holdings Limited and municipal government of Bayannaoer held a project promotion fair, at which, mayor Duan Zhiqiang and corresponding deputy mayor and department heads made thorough plans and arrangements for next stage of development for United Laboratories.

3 March 2012

Six bacteria-free products manufactured by bulk medicine plant of the United Laboratories in Zhuhai, namely amoxicillin sodium, ampicillin sodium, sulbactam sodium, ampicillin sodium/sulbactam sodium (2:1), amoxicillin sodium/clavulanate potassium (5:1) and clavulanate potassium, passed GMP certification in Romania.

4 April 2012

The bacteria-free imipenem of the United Laboratories obtained CEP certificate from EDQM, which was the first CEP certificate for bacteria-free product obtained by the Company.

5 May 2012

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

6 June 2012

Zhuhai United Laboratories Co. Ltd. was recognized again as a high-technology company in Guangdong Province and is entitled to a three-year preferential policy on income tax for high-tech enterprises.

7 July 2012

8 August 2012

The United Laboratories International Holdings Limited was ranked fourteenth among the 2011 "Top 100 Enterprises in Chinese Pharmaceutical Industry".

9 September 2012

Choy Kam Lok, the Chairman of the United Laboratories, conducted thorough discussion with He Haiming (何海明), director of advertising center (廣告中心) of CCTV, about future cooperation. Mr. He and his accompanying personnel thought high of corporate culture and propaganda work of the United Laboratories.

10 October 2012

Twelve varieties of products of Zhuhai United Laboratories Co., Ltd., i.e. one variety of bacteria-free powder injection finished product, five varieties of bacteria-free bulk medicine, and six varieties of non-sterile bulk medicine, passed on-site inspection and certification of U.S. FDA, among which, the bacteria-free powder injection finished product of the United Laboratories was the first powder injection product manufactured by PRC enterprises to pass FDA inspection and the second product to win FDA certification subsequent to ampicillin of the United Laboratories, which also passed on-site inspection and certification of FDA.

11 November 2012

The "Recombinant Human Insulin High-tech Industrialization Demonstration Project (重組人胰島素高技術產業化示範工程)" applied by the United Laboratories' Zhongshan Plant under protein biological drugs and vaccine development project for 2012 was approved by the central government and was granted a RMB10 million special subsidy for development projects by central government.

The recombinant insulin glargine (優樂靈) of the United Laboratories passed clinic trail, subsequent to which, researchers on diabetes from 20 medical institutions nationwide summarized all indicators of recombinant insulin glargine of the United Laboratories in clinical trail and unanimously affirmed its efficiency in treating diabetes.

12 December 2012

The oxybutynin hydrochloride oral solution developed by the United Laboratories obtained new drug certificate and drug production approval granted by China Food and Drug Administration. As the only product of the same kind manufactured by PRC enterprises, its upcoming launch will undoubtedly bring good news to urinary incontinent patients.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Choy Kam Lok *(Chairman)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping

Non-executive director

Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Choy Kam Lok
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

China

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

Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Wing Lung Bank Limited
Taipei Fubon Commercial Bank Co., Limited, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

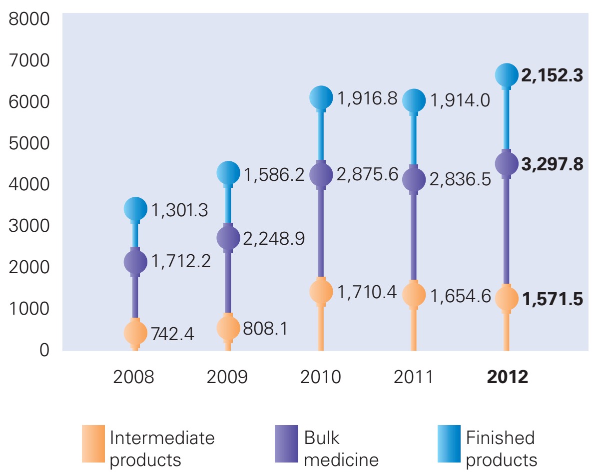
WEBSITES

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

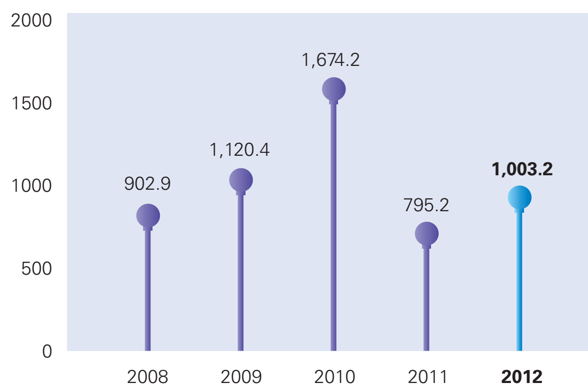
FINANCIAL HIGHLIGHTS

	2012 HK$'000	2011 HK$'000	Increase %
Turnover	**7,021,624**	6,405,039	9.6%
EBITDA	**1,003,207**	795,177	26.2%
Profit before taxation	**248,313**	183,189	35.6%
Profit for the year attributable to owners of the Company	**161,977**	104,273	55.3%
Earnings per share			
Basic	**HK10.7cents**	HK7.4cents	44.6%
Diluted	**HK10.7cents**	HK7.4cents	44.6%

TURNOVER
(HK$ million)

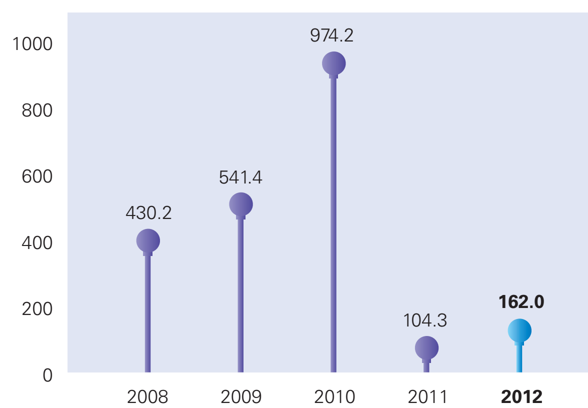


EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)

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



CHAIRMAN'S STATEMENT

愛我中華

報效祖國

Mr. Choy Kam Lok
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2012.

The year 2012 is full of challenges and opportunities. In this year, economies worldwide have not completely weathered the shadow of financial crisis, and signs of economic recovery were still bleak. Against this backdrop, the unsolved European debt crisis and ailing U.S. economy prolonged the sluggish demand for global trade. But, as the state medical policies became more and more stable, healthcare institutions that chose a "wait-and-see" attitude before decided to store pharmaceutical products again. Meanwhile, market demand for antibiotics gradually rebounded, and some of our competitors were forced to cease production because they had high production cost and hence suffered losses. The change in supply and demand helped us regain bargaining power, and the overall operating environment showed continuous improvement.

As our inventory pressure was relieved, the selling price of 6-APA, the Group's intermediate product, rebounded from the bottom, and that of 7-ACA, another intermediate product of the Group, started to stabilize. Capitalized on its leading position in the

CHAIRMAN'S STATEMENT

industry, United Laboratories earnestly improved its core capacity, developed new products and explored emerging markets according to market needs, to seek opportunities amidst such a changing situation, with a view to realizing consistent growth of business. During the year, the Group's turnover amounted to approximately HK$7,021.6 million, an increase of approximately 9.6% over that of 2011. EBITDA and profit before taxation were approximately HK$1,003.2 million and HK$248.3 million respectively, representing an increase of approximately 26.2% and 35.6% over the same period in the previous year, respectively. The profit attributable to owners of the Company was approximately HK$162.0 million, representing an increase of 55.3% over the same period in the previous year. Earnings per share amounted to HK10.7 cents. The board of directors does not recommend payment of final dividend for the year ended 31 December 2012.

Under moderate adjustment of business strategy and product portfolio, during the year, the Group recorded consistent growth in sales. In the meantime, the Group actively adopted new production technology to further strengthen its vertical integration and the Inner Mongolia plant succeeded in producing enzymatic amoxicillin. The newly-built production capacity was also put into operation, effectively matching with the pace of developing the export and domestic distribution markets. For new products, the Group further devoted efforts in sales, research, and development of recombinant human insulin products. Given that our products had completely the same efficacy as that of the imported ones and that the prices were competitive, since May 2011 when they were launched, the Group has successfully secured purchase orders from private hospitals, clinics and pharmacies, and the bidding at provincial and regional hospitals was smoothly completed as scheduled. Sales for the year were in line with management's expectation. In December 2012, the Group completed clinic trials of the third generation of insulin products, which then entered into production approval stage. According to current progress, we believe that this pharmaceutical product would reach a certain scale in one or two years. By then, it will become a driving force for the Group's growth. During the year, the Group vigorously propelled research and development of new products. There are currently 47 types of new products being developed, of which 10 were approved for the patent registration and 5 of them are applying for patent registration.

For overseas sales, the Group endlessly expanded efforts in export sales. In 2012, overseas offices in Brazil, India, Dubai, Indonesia, and Germany commenced full operation, which contributed to an increase of 23.7% in export sales, to HK$2,482.9 million. With the continuous increase in demand for intermediate and bulk medicine from the overseas markets, as well as the fact that our products being offered at highly reasonable prices have successively received certifications from all over the world in recent years, we are confident that our export sales will gradually increase and accordingly contribute to the future growth of the Group.

For financial strategy, in order to cope to business development and seize market opportunities, during the year, the Group optimized the financial structure through different financing channels to ensure adequate working capital. The Group raised funds from a rights issue at HK$2.21 per share in March 2012, with the proceeds used for expansion of the Group's production capacity and for general working capital purposes. The rights issue received overwhelming market response, which proved that the shareholders support the Group's overall development strategy and appreciate our investment value. Furthermore, in the first half of 2012, 珠海聯邦製藥股份有限公司, a wholly-owned subsidiary of the Group, issued one-year corporate bonds with principal up to RMB600 million, the net proceeds of which had been primarily used to purchase raw materials, market new products, expand sales network, develop our business and repay bank loans. Our strong financial position and sufficient working capital served as momentum for sustainable growth of the Group's business.

CHAIRMAN'S STATEMENT

Product quality and environmental protection issues in pharmaceutical industry have drawn much attention. The Group always attaches great importance to these two aspects. It always sets great store by environmental protection works. Its environmental protection system and investment proportion excel peers within the industry. It continued to take in-depth treatment on pollutants such as sewage, waste gases and residue wastes produced in production process. All of the Group's sewage treatment systems were designed by National Center for Pharmaceutical Sewage Treatment and Pharmaceutical Professional Planning and Design Institute. United Laboratories (Inner Mongolia) Limited, the Group's largest production base, continues to enhance its investment in environmental protection facilities. The Group established a large scale sewage treatment center, and its sewage emission standards are fully compliant with the state's relevant standards. For product quality, in addition to a comprehensive quality assurance system, we have stringent control on raw material purchasing, production and final testing. The Group regularly reviews its suppliers and examines its internal production procedures, and all production is strictly adhered to the technical specifications approved in the registration process in order to ensure that product quality complies with the safety standards of the state.

Prescription drugs market in the PRC is still under rapid growth. China's Ministry of Health had issued a report in September 2012, in which it clearly stated that it will invest RMB400 billion in seven major medical system projects in the coming eight years, with an average annual investment of RMB50 billion, which is ten times of investment in 2008. And the rural medical system newly launched in 2013 has a larger coverage, so that new-type rural cooperative medical fund will be increased to RMB270 billion. The fact is that China is facing problems like accelerated population aging and increased occurrence of chronic disease due to urbanization. Under improved living standard and larger medical insurance coverage, market demand for medical and healthcare also leverages significantly, and expenses relating to medical are destined to increase in future. On the other hand, with the government's increasingly stringent regulation on the pharmaceutical manufacturing industry, the entry barrier of the pharmaceutical industry has continuously increased and exerted more pressure on industry players, which will cause an integration of the industry. The Group is one of the few players which can meet the most stringent standards while capable to maintain stable production and increase output, and therefore it will benefit from the integration of the industry.

Looking ahead, medical reform in the PRC will continue. The state has clearly stated that it will invest more resources to support the pharmaceutical industry. The Essential Drugs List eagerly awaited by the market will be launched in March of this year. Number of drugs covered under this list will be significantly increased from the previous 307 to 520, of which, 317 are chemical/biological drugs, and the Group's insulin and amoxicillin products are also on the list. As announced by the Ministry of Health, the list will be enforced on 1 May of this year. Since the Group is well positioned to secure rural market and basic healthcare institutions, it is expected that launch of new list will improve sales of our relevant products and thereby propel continuous growth of related business. In addition,

CHAIRMAN'S STATEMENT

power station of Inner Mongolia plant, which was invested for construction before, was completed. Phase IV and V of the Inner Mongolia plant are expected to commence production in the second half of this year, which will further reduce our production cost and increase production efficiency, effectively matching with the pace of developing the export and domestic distribution markets.

We believe the most difficult time has gone. Right now, there is ample room for growth in the PRC domestic and export market. Therefore, We are optimistic about the prospect of the industry. In 2013, the Group will continue to propel effective business development strategies, including:

(1) we will continue to expand sales networks, strengthen penetration in domestic rural markets and communities, put great efforts to increase overseas sales, and actively explore new markets with growth potentials;

(2) we will continue to bring its cutting edge in research and development into play to develop products with high margin and demand;

(3) we will continue to regard the recombinant human insulin products as the key product of the Group and invest substantial resources to capture a larger market share;

(4) we will consider promoting the sales of related products to overseas markets as the Group's insulin products have received international recognition in terms of quality and production technology; and

(5) we will focus on driving the sales of the newly-packaged large-sized amoxicillin and ampicillin, with a view to turning them into new growth engines for finished products sales.

By continuous strengthening our overall competitiveness continuously, the Group is confident of achieving economies of scale, seizing market opportunities and maintaining the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

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

Choy Kam Lok
Chairman

Hong Kong, 27 March 2013

Excellent in Quality

Safe and Effective

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2012, the Group's turnover was approximately HK$7,021.6 million, a increase of 9.6% as compared with last year. The profit attributable to shareholders was approximately HK$162.0 million, representing an increase of 55.3% as compared with last year.The increase is mainly due to (i) continuous growth in sales of finished products, due to continued expansion of China's rural market; (ii) growth in export sales of intermediate and bulk medicine products; and (iii) increase in gain on fair value change of embedded derivative components of convertible bonds. Segmental turnover (including inter-segment sales) of intermediate products decreased by 4.1% as compared with last year. Segmental turnover (including inter-segment sales) of bulk medicine and finished products increased by 16.2% and 12.5% respectively as compared with last year. Segmental profit of intermediate products decreased by 68.7% as compared with last year. Segmental profit of bulk medicine products and finished products increased by 222.1% and 42.8% respectively as compared with last year.

Reviewing 2012, European debt crisis remain unresolved and weaken American's economy led to continuous slump in the market. Regarding the pharmaceutical market in China, there was no material change in pharmaceutical policy during the year as several pharmaceutical reforming measures were promoted by the government previously, thus, the market operated smoothly. The pharmaceutical market in China has been in the process of eliminating weak players, which brought the Group with great opportunities to strengthen its production capacities, control its production costs and enhance its competitiveness. The Group's operations during the year are summarised as follows:

Growth in export sales drove by intermediate and bulk medicine products

During the year, the Group placed more efforts in exploring overseas markets, and successfully expanded the overseas market share of intermediate and bulk medicine products, especially in Brazil, India, Dubai and Indonesia, thus growth in sales was achieved. Upon the overall commissioning of the production base in Inner Mongolia, the Group became one of the major producers around the globe of 6-APA and 7-ACA. In addition, the Group's intermediate and bulk medicine products have obtained overseas certification and registration. Therefore, demands for its intermediate and bulk medicine products in overseas markets continued to increase. For the year ended 31 December 2012, the Group's export sales accounted for 35.4% (2011: 31.3%) of its total sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Successful expansion in rural markets

During the year, the Group enhanced its promotion in rural markets in China, and successfully increased its market share in rural markets. Accordingly, the Group's sales of finished products increased by 12.5% as compared with last year, offsetting the impacts of the PRC government's price reduction measures on pharmaceutical products in the previous years. As the PRC government invested more resources in medical system for improvement of the well-being of rural population, the Group's sales team enhanced the expansion of its products in rural markets, to take a step ahead to expand its footprint in China, and drive the growth in sales of finished products.

Great progress in the launch of recombinant human insulin products

The Group's recombinant human insulin products have obtained orders from private hospitals, clinics and pharmaceutical shops successively, and the bidding at provincial and regional hospitals was conducted as planned. Sales during the year have achieved the management's expectation. The Group's recombinant human insulin products are of competitiveness, having completely the same efficacy as that of the imported insulin. In December 2012, the Group had completed the clinical experiment and applied for production approval for its 3rd generation of recombinant human insulin. According to the current progress, we believe these products will be launched in this or next year, and will drive for the growth of the Group.

Increase in financing sources

During the year, the Group optimizes its financial structure through various funding channels, in order to meet its needs for development. In March 2012, the Group issued 325,375,000 rights shares at the issue price of HK$2.21 per share on the basis of one rights share for every four existing shares held by the qualifying shareholders. Through which the Group raised approximately HK$700 million. Proceeds from the rights issue have been applied for expanding its production capacity of 6-APA at the Group's production plant in Inner Mongolia and for general working capital purposes. Please refer to the Company's public announcement published on 29 March 2012 and 8 May 2012 for details regarding the rights issue.

In July 2012, Zhuhai United Laboratories Co., Ltd. (珠海聯邦製藥股份有限公司), a wholly-owned subsidiary of the Company issued the corporate bonds of an aggregate principal amount of RMB600 million with a term of one year in the PRC. The net proceeds had been used for repayment of bank loans, procurement of raw materials, promotion of new products and expansion of sales network, and as general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had pledged bank deposits, cash and bank balances amounted to HK$1,892.5 million (2011: HK$1,538.1 million).

As at 31 December 2012, the Group had interest-bearing bank borrowings of approximately HK$4,923.5 million (2011: HK$3,336.3 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$2,397.1 million are fixed rate loans while the remaining balance of approximately HK$2,526.4 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2012, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2012	2011
	HK$'000	HK$'000
Property, plant and equipment	**1,708,939**	847,099
Prepaid lease payments	**97,677**	65,227
Bills receivables	**213,281**	118,663
Pledged bank deposits	**1,246,403**	589,446
	3,266,300	1,620,435

As at 31 December 2012, current assets of the Group amounted to approximately HK$6,610.9 million (2011: HK$5,584.6 million). The Group's current ratio was approximately 0.74 as at 31 December 2012, as compared with 1.03 as at 31 December 2011. As at 31 December 2012, the Group had total assets of approximately HK$16,141.7 million (2011: HK$11,864.9 million) and total liabilities of approximately HK$10,047.0 million (2011: HK$6,688.3 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposits and cash and bank balances to total equity) of 76.1% as at 31 December 2012, as compared with 53.2% as at 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENCY EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, the Group had no material contingent liabilities.

OUTLOOK FOR 2013

Looking into 2013, we expect that as the American begun to recover, though the European debt crisis will stay unresolved, the global economy and financial market sentiment will be improved as compare to the last year. China's overall export is also expected to be improved. We expect that, with the ageing population and improvement of living standards, the PRC government will promote more measures to facilitate the development and expand the scale of the pharmaceutical market, especially in the rural markets. As one of the major producers of antibiotics related products in China, the Group will be sure to seize opportunities and take advantage of its strengths, to expand its market share. Our development strategies are as follows:

Expanding sales network to cover rural markets and communities

To improve the living standards of rural and urban population, the PRC government intends to promote significant projects with relation to the seven medical systems, with investment of RMB400 billion in the next 8 years, and launch new rural medical security. Since the rapid economic development in China, the living standards of rural and urban population have been improved significantly, and demands for high-quality medical products are huge. In light of the above, demands for high-quality medical products in rural and urban markets will be further enlarged. The Group will based on the state policy, provide rural markets and communities with medical products with reasonable price and high quality, to benefit peoples in China and gain more market share.

Continuing development of the international market of intermediate and bulk medicine products

The Group will continue to expand its sales network in countries like Brazil, India and Dubai, to increase its share in export sales. The Group will make registration for its intermediate and bulk medicine products in regions which have not issued sale licenses, and further enlarge its sales team to expand new international markets. Demands for intermediate and bulk medicine products in overseas markets are expected to increase, and the Group's products with price competitiveness have obtained certification around the world in recent years. Therefore, the Group is confident that its export sales will begin to grow rapidly, to contribute to the future development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Developing new production process to reduce production cost

The Group will actively develop new production process and improve its existing production process, make better use of the vertically-integrated production model, further leverage its large scale advantages in the Inner Mongolia production base, to reduce production cost and enhance the market competitiveness of its products. The Group will continue to improve its existing production lines through new enzyme production process, to further reduce its production cost and enhance its production efficiency.

Developing new products and expanding the sales of recombinant human insulin products in international markets

The Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. Currently, we have 47 new products being developed, of which 10 products are applying for patent registration and 5 of them were approved for patent registration. The Group's insulin products have received relatively high international recognition in terms of quality and production technology, and we will consider promoting the sales of related products to overseas markets to expand revenue sources. The Group had completed the clinical experiment and applied for production approval for its 3rd generation of recombinant human insulin. According to the current progress, we believe these products will be launched in this or next year, and will drive for the growth of the Group.

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group had approximately 12,000 (2011: 10,500) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Choy Kam Lok (蔡金樂), aged 71, is an executive director and the Chairman of the Company. Mr. Choy has over 30 years of experience in the pharmaceutical manufacturing business in Hong Kong and the PRC. He was engaged in the trading of pharmaceutical products prior to the Choy Family's acquisition of United Laboratories Hong Kong in the 1990's. He was named an honorary citizen of Zhuhai City in 1998 and appointed a council member of the China Overseas Friendship Association in 2001. Mr. Choy is responsible for the overall business planning and strategic development of the Group. Mr. Choy is the father of Ms. Choy Siu Chit and Ms. Tsoi Hoi Shan, a non-executive director and an executive director of the Company respectively.

Mr. Leung Wing Hon (梁永康), aged 51, is an executive director, the Chief Financial Officer and Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Association of International Accountants and an associate of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 15 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Mr. Tsoi Hoi Shan (蔡海山), aged 35, is an executive director of the Company and is responsible for planning and managing the overall production at the Hong Kong Yuen Long Plant. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the son of Mr. Choy Kam Lok, who is an executive director and the Chairman of the Company, and the brother of Ms. Choy Siu Chit, who is a non-executive director of the Company. Mr. Tsoi is one of the discretionary objects of a discretionary trust established by the settlement deed dated 7 February 2007 made between Mr. Choy Kam Lok (as settler) and DBS Trustee H.K. (Jersey) Limited (as trustee).

Ms. Zou Xian Hong (鄒鮮紅), aged 48, is an executive director and a vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Zhu Su Yan (朱蘇燕), aged 48, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Mr. Fang Yu Ping (方煜平), aged 50, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC (formerly known as Nanjing Railway Medical School), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. In 1995, Mr. Fang joined the Group and had held a number of positions including the head of China sales office, district manager, regional manager, duty general manager and etc.. He was promoted to vice president of the Group in 2008.

Non-executive director

Ms. Choy Siu Chit (蔡紹哲), aged 40, is a non-executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the daughter of Mr. Choy Kam Lok, an executive director and the Chairman of the Company, and the sister of Mr. Tsoi Hoi Shan, an executive director of the Company.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 64, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee and remuneration committee and a member of the nomination committee. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Huang Bao Guang (黃寶光), aged 65, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA.

Prof. Song Ming (**宋敏**), aged 51, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Prof. Song Ming graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. He is now a university professor, a PhD supervisor and director of the Finance Department in School of Economics of Peking University. He has served as a professor of finance in Faculty of Business and Economics of The University of Hong Kong since 1997. He has been director of HKU-the Centre of China Financial Research since 2002, and vice-chairman of Chinese Financial Association of Hong Kong since 2008. Professor Song concurrently holds different positions such as a postdoctoral mentor of China Securities Regulatory Commission and Shenzhen Stock Exchange, and a member of the Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone of Shenzhen. He has published a number of monographs on his research fields of financial market, bank, financial regulation and management as well as the financial development of China. He also published dozens of academic articles in top international journals such as Journal of Financial Economics, The Journal of Business, The Economic Journal and well-known Chinese journals such as Social Sciences in China (《中國社會科學》) and Economic Research Journal (《經濟研究》). He also acts as editor in chief or a member of the editorial board of various domestic and international finance and economics journals. He often accepts interviews with domestic and foreign mainstream media. As an economic advisor to the government, He also participates in the advisory work and research on major economic and financial policies. Prof. Song is also an independent non-executive director of Guotai Junan International Holdings Limited (Stock Code: 1788), which is listed in the main board of the Stock Exchange of Hong Kong.

Ms. Fu Xiaonan (**傅小楠**), aged 42, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has over ten years of experience in investment banking and financial services. She is currently an assistant to the Chief Executive Officer of 華泰聯合證券有限責任有限公司 (Huatai United Securities Co., Ltd.) ("Huatai United Securities"), the holding company of Huatai Securities Co., Ltd., a company listed on the Shanghai Stock Exchange. She joined the investment banking division of Huatai United Securities in May 2011 and was appointed to her current position in July 2012. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. From June 2008 to March 2010, Ms. Fu was also appointed as an independent non-executive director of Blue Star Cleaning Co., Ltd. (藍星清洗股份有限公司) (now known as Chengdu Xingrong Investment Co., Ltd. (成都市興蓉投資股份有限公司)), a company listed on the Shenzhen Stock Exchange. Ms. Fu obtained a bachelor degree in Economics from Minzu University of China (中央民族大學), a master degree in Accounting from the Central University of Finance and Economics (中央財經大學) and a degree in Executive Master in Business Administration (EMBA) from the Cheung Kong Graduate School of Business.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷), aged 46, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊), aged 62, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Li Guang Wei (李光偉), aged 44, is general manager of United Laboratories (Inner Mongolia) Limited of the Group. Mr. Li graduated from Huabei Pharmaceutical Factory's Employees University in 1991. Mr. Li joined the Group in 2005 and had served as assistant manager of engineer department in United Laboratories (Chengdu) Limited. Prior to joining the Group, Mr. Li had served in a number of pharmaceutical enterprises and was responsible for building of production lines and improvement of production process with over 15 years experience in this field. Mr. Li had been responsible for improvement of production process in the Group's Chengdu factory and building of the Group's Inner Mongolia's factory. Mr. Li is currently responsible for the management of the Group's Inner Mongolia's factory.

Mr. Zhang Wen Yu (張文玉), aged 44, is the general manager of United Laboratories (Chengdu) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Chengdu factory.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Dou Zhen Guo (竇振國), aged 37, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Mr. Yang Qiu Hong (楊秋紅), aged 43, the general manager of bulk medicine sales department in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang graduated from Qingdao University of Science and Technology (formerly named as "Qingdao College of Chemical") in 1991. Mr. Yang joined the Group in 1999 and responsible for production, sales and research in the Group's Zhuhai United Laboratories Co. Ltd. Mr. Yang is currently responsible for the Group's sales of intermediate and bulk medicine products.

Ms. Su Li Hong (蘇麗紅), aged 44, is the general manager of the Group's bulk medicine sales department. Ms. Su graduated from China Pharmaceutical University in July 1991, majoring in Chinese traditional medicine; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from The University of International Business and Economics in 2007, with a master in international trade. From 1996 to 2011, Ms. Su worked on different positions in the Group's branch plant in Zhongshan and bulk medicine plant in Zhuhai, such as manager of the administrative personnel department, manager of the procurement department, manager of the bulk medicine sales department, manager of the foreign trade department, assistant factory manager, Chief Marketing Officer and Chief Foreign Trade Officer. Since 2012, Ms. Su has been general manager of the international bulk medicine sales department of the United Laboratories, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the overseas market.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 39 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2012 is set out in note 8 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 37 of this annual report.

The Board do not recommend the payment of final dividend for the year ended 31 December 2012.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 112 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

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

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$3,413.8 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on page 40 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in note 32 to the consolidated financial statements.

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2012, the aggregate sales attributable to the Group's five largest customers and five largest suppliers accounted for less than 30% of the Group's total sales and purchases respectively for the year.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Except for the Company issued 325,375,000 rights shares at the issue price HK$2.21 on the basis of one new share for every four ordinary shares currently held during the year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM RIGHTS ISSUE

In March 2012, the Company issued 325,375,000 rights shares on the basis of one (1) rights share for every four (4) existing shares held by the qualifying shareholders at the subscription price of HK$2.21 per rights share and the net proceeds was approximately HK$700.0 million. At 31 December 2012, all proceeds were applied for expanding its production capacity of 6-APA, being one of the intermediary products manufactured by the Group, at its production plant in Inner Mongolia and general working capital purposes. The details of the rights issues was disclosed in the announcements dated 29 March 2012 and 8 May 2012.

DIRECTORS

The directors of the Company during the year ended 31 December 2012 and up to the date of this report were as follows:

Executive Directors

Mr. Choy Kam Lok *(Chairman)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping
Ms. Peng Wei *(resigned on 1 November 2012)*

Non-Executive Director

Ms. Choy Siu Chit

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Mr. Song Ming
Ms. Fu Xiao Nan *(appointed on 10 December 2012)*

In accordance with article 87 of the Company's articles of association, Ms. Zou Xian Hong, Ms. Zhu Su Yan, Mr. Fang Yu Ping and Ms. Choy Siu Chit will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Ms. Fu Xiao Nan will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 16 to 18 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Choy Kam Lok and Mr. Leung Wing Hon has entered into a service contract dated 25 May 2007 with the Company under which each of them agreed to act as an executive director of the Company for a period of three years unless terminated in accordance with the terms of the service contracts. Under these service contracts, the annual salary payable by the Company to Mr. Choy Kam Lok is HK$4,800,000 and the annual salary payable to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. Each of the executive directors will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

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

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

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

Ms. Choy Siu Chit has entered into a letter of appointment dated 25 May 2012 with the Company under which she has agreed to act as a non-executive director for a period of two years unless terminated in accordance with the terms of the letter of appointment. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. Ms. Choy Siu Chit is entitled to an annual director's fee of HK$960,000. Ms. Choy Siu Chit is also entitled to an annual emolument of HK$840,000 for her service as directors of certain subsidiaries of the Group.

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

Ms. Fu Xiao Nan has entered into a letter of appointment with the Company for an initial term of three years commencing from 10 December 2012, unless terminated by at least one month's written notice served by either party at any time during the then existing term. Pursuant to the letter of appointment, Ms. Fu is entitled to an annual fee of HK$240,000, which is determined by the Board with reference to Ms. Fu's experience, duties, responsibilities and the Company's remuneration policy.

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

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

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

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

As at 31 December 2012, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

REPORT OF THE DIRECTORS

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

Name of directors	Company/Name of associated corporation	Number of shares	*Notes*	Capacity	Percentage of interest
Mr. Choy Kam Lok	Company	1,193,127,500 (L)	*(1)*	Founder of a trust	73.34%
Mr. Choy Kam Lok	Company	118,750,000 (S)	*(2)*	Interest held jointly with another person	7.30%
Mr. Leung Wing Hon	Company	637,500 (L)		Personal interest	0.04%
Mr. Tsoi Hoi Shan	Company	125,000 (L)		Personal interest	0.01%
Ms. Zou Xian Hong	Company	1,100,000 (L)		Personal interest	0.07%
Ms. Zhu Su Yan	Company	868,179 (L)		Personal interest	0.05%
Mr. Fang Yu Ping	Company	410,000 (L)		Personal interest	0.03%
Ms. Choy Siu Chit	Company	500,000 (L)		Personal interest	0.03%

L/S: Long position/short position

Notes:

(1) Mr. Choy Kam Lok ("Mr. Choy") is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell Holdings Limited ("Gesell") and Heren Far East Limited ("Heren") which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 67,902,500 shares of the Company and 225,000 shares of the Company held by the spouse of Mr. Choy, Ms. Ning Kwai Chan ("Ms. Ning") which is deemed interests of Mr. Choy. Heren lent 118,750,000 shares to Mr. Choy and Ms. Ning. Hence, Mr. Choy had a long position in the 1,193,127,500 shares.

(2) Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

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

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

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

Name	*Notes*	**Capacity**	**Number of shares held**	**Percentage of Interest**
Ms. Ning	*(1)*	Interest of spouse and personal interest	1,193,127,500 (L) 118,750,000 (S)	73.34% 7.30%
Heren		Beneficial owner	1,006,250,000 (L)	61.85%
Gesell	*(2)*	Interest in a controlled corporation	1,006,250,000 (L)	61.85%
DBS Trustee H.K. (Jersey) Limited	*(3)*	Trustee	1,006,250,000 (L)	61.85%

L/S: Long position/short position

Note:

(1) Ms. Ning is the spouse of Mr. Choy and is accordingly deemed to have interest in 1,193,127,500 shares of the Company that Mr. Choy has interest in and Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(2) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(3) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 1,006,250,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2012.

REPORT OF THE DIRECTORS

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 29 to 34 of this annual report.

PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

Tsoi Hoi Shan
Executive Director

Hong Kong, 27 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2012, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("New CG Code") (previously known as Code on Corporate Governance Practices ("Former CG Code")) contained in Appendix 14 of the rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

– Code Provision A.1.8

Code provision A.1.8 of the New CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the directors and the management of the Group, the Board believes that all potential claims and legal actions against the directors can be handled effectively, and the possibility of actual litigation against the directors is very low. The Company will consider to make such an arrangement as and when it thinks necessary.

– Code Provision A.2.1

Under the code provision A.2.1 of the New CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 1 November 2012, Ms. Peng Wei resigned her office of executive director and general manager of the Company and the Company has no chief executive officer thereafter. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the New CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 31 May 2012 (the "2012 AGM") due to other important engagement.

– Code Provision B.1.3

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provisions B.1.3 of the Former CG Code and B.1.2 of the New CG Code except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of executive directors only and not senior management (as opposed to directors and senior management under the code provision).

– Code Provision E.1.2

Code provision E.1.2 of the New CG Code stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Company was unable to attend the 2012 AGM due to other important engagement.

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board comprises six executive directors, one non-executive director and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 16 to 20. The Board has established three Board committees namely Audit Committee, Remuneration Committee and Nomination Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Choy Kam Lok	4/4	0/1	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A
Mr. Tsoi Hoi Shan	4/4	0/1	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A
Ms. Peng Wei *(resigned on 1 November 2012)*	2/3	0/1	N/A	N/A	N/A
Non-executive Director					
Ms. Choy Siu Chit	4/4	1/1	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Chong Peng Oon	4/4	1/1	2/2	1/1	1/1
Mr. Huang Bao Guang	4/4	0/1	2/2	1/1	1/1
Mr. Song Ming	4/4	1/1	2/2	1/1	1/1
Ms. Fu Xiao Nan *(appointed on 10 December 2012)*	1/1	0/0	0/0	0/0	0/0

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

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

CORPORATE GOVERNANCE REPORT

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the New CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The information of Mr. Choy Kam Lok, the Chairman is set out in the Biographical Details of Directors and Senior Management. On 1 November 2012, Ms. Peng Wei resigned her office of executive director and general manager of the Company and the Company has no chief executive officer thereafter. The Company will make appointment to fill the post as appropriate.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. For the year ended 31 December 2012, the Nomination Committee comprises four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Mr. Song Ming and Ms. Fu Xiao Nan. Mr. Song Ming is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the New CG Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2012, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

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

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2012 amounted to approximately HK$3,880,000 and HK$2,980,000 respectively.

On behalf of the Board

Leung Wing Hon
Executive Director

Hong Kong, 27 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 111, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 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 disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	8	7,021,624	6,405,039
Cost of sales		(4,904,338)	(4,576,261)
Gross profit		2,117,286	1,828,778
Other income	9	73,650	89,531
Other gains and losses	10	(874)	11,018
Selling and distribution expenses		(1,081,691)	(1,026,182)
Administrative expenses		(590,305)	(460,226)
Other expenses		(110,907)	(110,257)
Gain on fair value change of embedded derivative components of convertible bonds		56,085	5,276
Finance costs	11	(214,931)	(154,749)
Profit before taxation		248,313	183,189
Taxation	13	(86,336)	(78,916)
Profit for the year attributable to owners of the Company	14	161,977	104,273
Other comprehensive income			
Exchange differences arising on translation to presentation currency		55,604	235,721
Total comprehensive income for the year attributable to owners of the Company		217,581	339,994
			(restated)
Earnings per share (HK cents)	16		
– Basic		10.7	7.4
– Diluted		10.7	7.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	**8,379,224**	5,638,860
Prepaid lease payments	18	**144,488**	110,493
Goodwill	19	**3,770**	3,740
Intangible assets	20	**2,774**	2,303
Deposit for leasehold land		**164,532**	51,474
Deposits for acquisition of property, plant and machinery		**803,810**	449,153
Available-for-sale investment	21	**–**	–
Deferred tax asset	29	**32,211**	24,323
		9,530,809	6,280,346
Current assets			
Inventories	22	**1,813,609**	1,537,955
Trade and bills receivables, other receivables, deposits and prepayments	23	**2,896,789**	2,505,853
Derivative financial instruments	24	**4,426**	–
Prepaid lease payments	18	**3,542**	2,701
Pledged bank deposits	25	**1,246,403**	589,446
Bank balances and cash	25	**646,125**	948,604
		6,610,894	5,584,559
Current liabilities			
Trade and bills payables and accrued charges	26	**3,416,616**	2,286,763
Derivative financial instruments	24	**4,669**	1,517
Convertible bonds	30	**943,431**	–
Obligations under finance leases – due within one year	27	**238,950**	–
Tax payables		**33,026**	33,837
Borrowings – due within one year	28	**4,322,486**	3,086,309
		8,959,178	5,408,426
Net current (liabilities) assets		**(2,348,284)**	176,133
Total assets less current liabilities		**7,182,525**	6,456,479

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities	*29*	**64,899**	75,841
Convertible bonds	*30*	**–**	954,017
Obligations under finance leases – due after one year	*27*	**421,950**	–
Borrowings – due after one year	*28*	**600,987**	250,000
		1,087,836	1,279,858
		6,094,689	5,176,621
Capital and reserves			
Share capital	*31*	**16,269**	13,015
Reserves		**6,078,420**	5,163,606
Equity attributable to owners of the Company		**6,094,689**	5,176,621

The consolidated financial statements on pages 37 to 111 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	13,015	1,959,061	286,032	364,259	483,112	2,004,463	5,109,942
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	–	–	–	–	235,721	–	235,721
Profit for the year	–	–	–	–	–	104,273	104,273
Total comprehensive income for the year	–	–	–	–	235,721	104,273	339,994
Appropriations	–	–	–	100,191	–	(100,191)	–
Dividends *(note 15)*	–	–	–	–	–	(273,315)	(273,315)
At 31 December 2011	13,015	1,959,061	286,032	464,450	718,833	1,735,230	5,176,621
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**55,604**	**–**	**55,604**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**161,977**	**161,977**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**55,604**	**161,977**	**217,581**
Issue of new shares upon rights issue *(note 30)*	**3,254**	**715,825**	**–**	**–**	**–**	**–**	**719,079**
Expenses incurred in connection with rights issue	**–**	**(18,592)**	**–**	**–**	**–**	**–**	**(18,592)**
Appropriations	**–**	**–**	**–**	**66,763**	**–**	**(66,763)**	**–**
At 31 December 2012	**16,269**	**2,656,294**	**286,032**	**531,213**	**774,437**	**1,830,444**	**6,094,689**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before taxation	248,313	183,189
Adjustments for:		
Provision of allowance for inventories	–	65,322
Reversal of provision of allowance for doubtful debts	(4,767)	(8,231)
Amortisation of intangible assets	1,432	1,082
Amortisation of prepaid lease payments	3,553	2,697
Depreciation of property, plant and equipment	534,978	453,460
Finance costs	214,931	154,749
Bank interest income	(19,734)	(11,637)
Net loss on disposal of property, plant and equipment	2,992	1,769
Fair value change on derivative financial instruments	(3,239)	3,785
Gain on fair value change of embedded derivative components of convertible bonds	(56,085)	(5,276)
Operating cash flows before movements in working capital	922,374	840,909
Increase in inventories	(260,705)	(297,187)
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	(361,765)	174,709
Increase in derivative financial instruments	1,965	–
Increase (decrease) in trade and bills payables and accrued charges	394,770	(71,361)
Cash generated from operations	696,639	647,070
Income taxes paid	(105,803)	(138,571)
Net cash from operating activities	590,836	508,499
Investing activities		
Payments for purchase of property, plant and equipment	(2,740,151)	(1,195,236)
Proceeds on disposal of property, plant and equipment	26,852	5,327
Increase in prepaid lease payments	(37,090)	(125)
Placement of pledged bank deposits	(1,538,289)	(1,624,446)
Withdrawal of pledged bank deposits	891,583	1,436,769
Interest received	19,734	11,637
Acquisition of intangible assets	(1,880)	–
Payment for deposit of leasehold land	(111,373)	(46,727)
Net cash used in investing activities	(3,490,614)	(1,412,801)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Financing activities		
Dividends paid	–	(273,315)
Interest paid	(311,843)	(175,063)
Finance leases raised	738,000	–
Repayments of obligations under finance leases	(84,538)	–
New borrowings other than trust receipt loans raised	4,332,231	3,848,759
Repayment of borrowings other than trust receipt loans	(2,900,087)	(2,945,958)
(Decrease) increase in trust receipt loans, net	–	(9,280)
Issue of convertible bonds	–	970,440
Expenses relating to issue of convertible bonds	–	(39,777)
Increase in bank overdraft, net	122,698	–
Issue of ordinary shares	719,079	–
Expenses relating to issue of ordinary shares	(18,592)	–
Net cash from financing activities	2,596,948	1,375,806
Net (decrease) increase in cash and cash equivalents	(302,830)	471,504
Effect of foreign exchange rate changes	351	13,045
Cash and cash equivalents at beginning of the year	948,604	464,055
Cash and cash equivalents at end of the year	646,125	948,604
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	646,125	948,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 39.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012, the Group had net current liabilities of HK$2,348,284,000 which included borrowings due within one year of HK$4,322,486,000. The directors believe the existing revolving bank borrowings of HK$1,492,194,000 included in current liabilities at the end of the reporting period could be successfully renewed on maturity date. The directors also do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment for the term loans of HK$581,676,000 which are subject to repayable on demand clause but not repayable within one year based on the agreed scheduled repayments set out in the loan agreements. In addition, the Group had available unutilised borrowing facilities of HK$1,208,179,000 at 31 December 2012 which will be subject to review in years of 2013 and 2014. The directors are of the opinion that the Group has a good track record and relationship with banks which enhance the Group's ability to renew the borrowing facilities upon expiry.

Taking into account of the presently available banking facilities and internally generated funds of the Group, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain trade receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the trade receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured borrowings.

In addition, the Group endorsed bills receivables to suppliers to exchange for goods and property, plant and equipment from those suppliers which transferred the contractual rights to receive cash flows from those bills receivables to the respective suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables, and the associated trade payables and other payables.

The relevant disclosures regarding the transfer of these receivables on application of the amendments to HKFRS 7 have not been changed as the relevant disclosures have already been made by the Group in the previous year audited consolidated financial statements (see notes 23, 26 and 28).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

The potential impact on Amendments to HKFRS 9, HKFRS 13 and Amendments to HKAS 1 has been disclosed in the the 2011 audited consolidated financial statements.

Except for increased extensive disclosures in the consolidated financial statements in the future, the directors of the Company anticipate that the application of the new and revised HKFRSs will not have material impact on the results and financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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

Goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

Property, plant and equipment

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the leased term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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

Sale and leaseback resulting in a finance lease

If a sale and leaseback transaction results in a finance lease, the present value of minimum lease payments is credited to a liability account representing the initial net obligation under finance lease. Any excess of sales proceeds over the carrying amount is not immediately recognised as income by the Group. Instead, it is deferred and amortised over the lease term. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

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

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

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

Research and development expenditures

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditures *(Continued)*

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

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

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

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

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

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

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

Impairment loss on financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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

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

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

Derivative financial instruments

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

Embedded derivatives

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

Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

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

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

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Retirement benefit costs

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such difference will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. As at 31 December 2012, the carrying amount of property, plant and equipment is HK$8,379,224,000 (2011: HK$5,638,860,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Impairment of property, plant and equipment

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

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2012, the carrying amount of trade and bills receivables, and other receivables is disclosed in note 23.

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

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. As at 31 December 2012, the carrying amount of inventories is HK$1,813,609,000 (2011: HK$1,537,955,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the embedded derivatives in convertible bonds. As at 31 December 2012, the carrying amount of embedded derivatives is HK$206,311,000 (2011: HK$260,920,000). Details of the terms of the convertible bonds are disclosed in note 30.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the obligations under finance leases (note 27), borrowings (note 28), convertible bonds (note 30), net of bank balances, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including trade and bills receivables, pledged bank deposits and bank balances and cash)	**4,075,021**	3,584,621
Derivative financial instruments	**4,426**	–
Financial liabilities		
Amortised cost	**9,000,989**	5,623,072
Convertible bonds	**943,431**	954,017
Derivative financial instruments	**4,669**	1,517

Financial risk management objectives and policies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Market risk

Foreign currency risk

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

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

	2012	2011
	HK$'000	HK$'000
USD	**360,338**	349,769
Euro	**4,618**	(1,759)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD and Euro. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where Renminbi strengthens 5% against USD and Euro. For a 5% weakening of Renminbi against USD and Euro, there would be an equal but opposite impact on the profit for the year.

	2012	2011
	HK$'000	HK$'000
USD		
Profit for the year	**(15,476)**	(15,199)
Euro		
Profit for the year	**(196)**	73

7. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Foreign currency risk*(Continued)*

Forward exchange rate sensitivity analysis

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

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward exchange rate of RMB strengthen 1% (2011: 1%) against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would increase by HK$11,870,000 (2011: HK$2,686,000). If the forward exchange rate had been lower by 1% (2011: 1%), the Group's profit for the year would have decreased by HK$12,357,000 (2011: HK$6,430,000).

Fair value and cash flow interest rate risk

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

Interest rate sensitivity analysis

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

At the end of the reporting period, if interest rates had been increased/decreased by 50 (2011: 50) basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$6,556,000 (2011: HK$599,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Other price risk

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

Equity price risk sensitivity analysis

If the share price of the Company inputted to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2011: 10%) higher while all other variables were held constant, the profit for the year ended 31 December 2012 would decrease by approximately HK$18,478,000 (2011: HK$29,517,000). If the share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2011: 10%) lower while all other variables were held constant, the profit for the year ended 31 December 2012 would increase by approximately HK$17,415,000 (2011: HK$25,611,000).

If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2011: 10%) higher while all other variables were held constant, the profit for the year ended 31 December 2012 would decrease by approximately HK$10,627,000 (2011: HK$20,776,000). If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2011: 10%) lower while all other variables were held constant, the profit for the year ended 31 December 2012 would increase by approximately HK$10,873,000 (2011: HK$20,409,000).

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk *(Continued)*

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

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

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

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

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2012, the Group has available unutilised banking facilities of HK$1,208,179,000 (2011: HK$1,580,208,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates current at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2012									
Non-derivative									
Non-interest bearing									
Trade, bills and other payables	–	–	1,565,039	1,503,222	348,355	–	–	3,416,616	3,416,616
Interest bearing instruments									
Obligations under finance leases	5.25%	–	34,795	34,107	68,903	137,805	447,522	723,132	660,900
Borrowings									
– fixed rate	6.25%	396,838	249,596	150,237	748,679	786,138	101,788	2,433,726	2,397,116
– variable rate	7.12%	1,857,862	125,478	692	2,075	59,128	527,667	2,572,902	2,526,357
Convertible bonds									
– fixed rate	7.5%	–	–	–	36,842	1,019,602	–	1,056,444	943,431
		2,254,700	1,974,908	1,688,258	1,204,854	2,002,673	1,076,977	10,202,370	9,944,420
Derivative – net settlement	–	–	–	–	944	356	1,703	3,003	3,003
Derivative – gross settlement									
– inflow	–	–	(131,374)	(12,478)	(181,168)	(164,664)	–	(489,684)	(489,684)
– outflow	–	–	132,296	12,563	181,390	165,101	–	491,350	491,350
		–	922	85	222	437	–	1,666	1,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	On demand HK$'000	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2011									
Non-derivative									
Non-interest bearing									
Trade, bills and other payables	–	–	1,138,558	929,726	218,479	–	–	2,286,763	2,286,763
Interest bearing instruments									
Borrowings									
– fixed rate	4.81%	503,472	302,340	289,599	738,518	–	–	1,833,929	1,831,198
– variable rate	7.18%	1,195,062	4,127	–	64,914	8,281	263,937	1,536,321	1,505,111
Convertible bonds									
– fixed rate	7.50%	–	–	–	36,557	36,557	1,011,417	1,084,531	954,017
		1,698,534	1,445,025	1,219,325	1,058,468	44,838	1,275,354	6,741,544	6,577,089
Derivative – gross settlement									
– inflow	–	–	(31,693)	(31,768)	(95,309)	(208,837)	–	(367,607)	(367,607)
– outflow	–	–	31,862	31,832	95,456	209,974	–	369,124	369,124
		–	169	64	147	1,137	–	1,517	1,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity analysis of term loans of HK$2,254,700,000 (2011: HK$1,698,534,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates and variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments						
	0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2012	**372,085**	**161,140**	**236,359**	**952,986**	**405,211**	**225,579**	**2,353,360**
As at 31 December 2011	286,516	66,043	101,067	453,615	763,974	115,413	1,786,628

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

Fair value

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

	2012		
	Level 2 HK$'000	**Level 3 HK$'000**	**Total HK$'000**
Derivative financial instruments – assets	**4,426**	**–**	**4,426**
Derivative financial instruments – liabilities	**(4,669)**	**–**	**(4,669)**
Embedded derivatives components of convertible bonds	**–**	**(206,311)**	**(206,311)**
Total	**(243)**	**(206,311)**	**206,554**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities

	HK$'000
At 1 January 2011	–
Issue of convertible bonds	265,106
Exchange realignment	1,090
Gain recognised in profit or loss	(5,276)
At 31 December 2011	260,920
Exchange realignment	1,476
Gain recognised in profit or loss	(56,085)
At 31 December 2012	206,311

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION

Turnover

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

	2012	2011
	HK$'000	HK$'000
Sales of pharmaceutical products	**7,021,624**	6,405,039

Segment information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

(a) Segment turnover and results:

Year ended 31 December 2012

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,571,494	3,297,839	2,152,291	7,021,624	–	7,021,624
Inter-segment sales	1,274,164	266,593	–	1,540,757	(1,540,757)	–
	2,845,658	3,564,432	2,152,291	8,562,381	(1,540,757)	7,021,624
RESULT						
Segment profit	22,058	55,594	426,771			504,423
Unrealised profit elimination	6,720	(9,758)	(2,538)			(5,576)
	28,778	45,836	424,233			498,847
Unallocated other income						23,291
Unallocated corporate expenses						(114,105)
Other gains and losses						(874)
Gain on fair value change of embedded derivative components of convertible bonds						56,085
Finance costs						(214,931)
Profit before taxation						248,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

Year ended 31 December 2011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

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

Intersegment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, gain on fair value of embedded derivative components of convertible bonds, sundry income, other gains and losses, corporate expenses and staff costs, and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Segment assets and liabilities

	2012 HK$'000	2011 HK$'000
Reportable segment assets		
Intermediate products	10,201,216	6,293,598
Bulk medicine	2,719,354	2,754,091
Finished products	1,291,968	1,254,843
Total segment assets	14,212,538	10,302,532
Reportable segment liabilities		
Intermediate products	2,534,807	1,392,147
Bulk medicine	783,062	789,892
Finished products	98,747	104,724
Total segment liabilities	3,416,616	2,286,763

Measurement

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

Reportable segment liabilities exclude derivative financial instruments, tax payables, obligations under finance leases, borrowings, deferred tax liabilities and convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Reconciliation of reportable segment assets and liabilities

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

	2012	2011
	HK$'000	HK$'000
Assets		
Reportable segment assets	**14,212,538**	10,302,532
Unallocated assets:		
Deferred tax asset	**32,211**	24,323
Derivative financial instruments	**4,426**	–
Pledged bank deposits	**1,246,403**	589,446
Bank balances and cash	**646,125**	948,604
Total assets per consolidated statement of financial position	**16,141,703**	11,864,905
Liabilities		
Reportable segment liabilities	**3,416,616**	2,286,763
Unallocated liabilities:		
Derivative financial instruments	**4,669**	1,517
Tax payables	**33,026**	33,837
Obligations under finance leases	**660,900**	–
Borrowings	**4,923,473**	3,336,309
Deferred tax liabilities	**64,899**	75,841
Convertible bonds	**943,431**	954,017
Total liabilities per consolidated statement of financial position	**10,047,014**	6,688,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(d) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December 2012

	Intermediate products HK$'000	**Bulk medicine HK$'000**	**Finished products HK$'000**	**Consolidated HK$'000**
Amortisation of prepaid lease payment	**2,002**	**1,173**	**378**	**3,553**
Amortisation of intangible assets	**–**	**–**	**1,432**	**1,432**
Depreciation of property, plant and equipment	**403,266**	**77,791**	**53,921**	**534,978**
Loss on disposal of property, plant and equipment	**296**	**2,493**	**203**	**2,992**
Additions to prepaid lease payments	**3,164**	**33,926**	**–**	**37,090**
Additions to intangible assets	**1,880**	**–**	**–**	**1,880**
Additions to property, plant and equipment	**3,127,370**	**82,776**	**21,797**	**3,231,943**

For the year ended 31 December 2011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(e) Geographical information

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

	Turnover from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC (country of domicile)	**4,538,721**	4,397,079	**9,382,211**	6,133,498
Europe	**682,436**	407,515	**–**	–
India	**772,564**	971,106	**–**	–
Hong Kong	**36,215**	66,195	**116,387**	122,525
Middle east	**170,449**	75,411	**–**	–
South America	**350,701**	114,202	**–**	–
Other Asian regions	**389,865**	330,169	**–**	–
Other regions	**80,673**	43,362	**–**	–
	7,021,624	6,405,039	**9,498,598**	6,256,023

Notes:

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

2) Non-current assets excludes deferred tax asset.

(f) Information about major customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Bank interest income	**19,734**	11,637
Sales of raw materials	**30,230**	34,496
Subsidy income (note 37)	**20,129**	40,401
Sundry income	**3,557**	2,997
	73,650	89,531

10. OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
Net foreign exchange (loss) gain	**(1,121)**	16,572
Net loss on disposal of property, plant and equipment	**(2,992)**	(1,769)
Fair value change on derivative financial instruments	**3,239**	(3,785)
	(874)	11,018

11. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years	**216,063**	185,930
Interest on convertible bonds wholly repayable within five years	**110,852**	13,799
Interest on finance leases wholly repayable within five years	**22,797**	–
	349,712	199,729
Less: amounts capitalised in property, plant and equipment	**(134,781)**	(44,980)
	214,931	154,749

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.38% (2011: 6.01%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors and chief executive

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

Year ended 31 December 2012

	Choy Kam Lok HK$'000 (note (i))	Peng Wei HK$'000 (note (ii))	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Fu Xian Nan HK$'000 (note (iii))	Total HK$'000
Fees	–	–	–	–	–	–	–	960	240	240	240	14	1,694
Other emoluments:													
Salaries and other benefits	4,800	3,006	3,720	1,800	1,800	1,800	1,800	840	–	–	–	–	19,566
Bonus*	–	5,761	–	–	460	460	460	–	–	–	–	–	7,141
Retirement benefit scheme contributions	–	37	14	14	6	11	15	27	–	–	–	–	124
	4,800	8,804	3,734	1,814	2,266	2,271	2,275	867	–	–	–	–	26,831
Total emoluments	4,800	8,804	3,734	1,814	2,266	2,271	2,275	1,827	240	240	240	14	28,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors and chief executive *(Continued)*

Year ended 31 December 2011

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

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

Note:

(i) Ms. Peng Wai is the chief executive of the Company for the year ended 31 December 2011 and for the period from 1 January 2012 to 31 October 2012. Her emolument disclosed above include those for services rendered by her as chief executive.

(ii) Peng Wei resigned on 1 November 2012.

(iii) Fu Xian Nan was appointed on 10 December 2012.

(b) Employees

For the year ended 31 December 2012 and 2011, all the five highest paid individuals of the Group are directors of the Company, details of which are set out above.

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. TAXATION

	2012 HK$'000	2011 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**4,393**	7,854
PRC enterprise income tax	**83,398**	52,547
PRC withholding tax	**19,693**	26,127
	107,484	86,528
(Over) underprovision in prior years		
Hong Kong	**(3,015)**	(220)
PRC	**396**	–
	(2,619)	(220)
Sub-total	**104,865**	86,308
Deferred tax (note 29)	**(18,529)**	(7,392)
	86,336	78,916

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

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

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投資企業和外國企業所得稅法》) and Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《外商投資企業和外國企業所得稅法實施細則》), both of which came into force on 1 July 1999, certain subsidiaries in the PRC are entitled to exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter will be entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Such tax benefit for respective subsidiaries had expired from 1 January 2011 to 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. TAXATION *(Continued)*

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

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax charge of HK$4,493,000 (2011: HK$6,233,000) on the undistributed earnings has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2012.

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

	2012 **HK$'000**	2011 HK$'000
Profit before taxation	**248,313**	183,189
Tax at PRC Enterprise Income Tax rate of 25% (2011: 25%)	**62,078**	45,797
Tax effect of expenses not deductible for tax purpose	**4,157**	8,986
Tax effect of income not taxable for tax purpose	**(15,754)**	(1,543)
Overprovision in prior years	**(2,619)**	(220)
Tax effect of tax losses not recognised	**109,253**	25,521
Utilisation of tax losses previously not recognised	**(11,280)**	–
(Utilisation of) tax effect of deductible temporary difference not recognised	**(15,992)**	14,337
PRC withholding tax on undistributed profits of PRC subsidiaries	**4,493**	6,233
PRC withholding tax on interest income	**4,258**	–
Effect of tax concessionary rates granted to the PRC subsidiaries	**(50,441)**	(16,150)
Effect of tax exemptions granted to the PRC subsidiaries	**–**	(410)
Effect of different tax rates of subsidiaries	**(2,263)**	(4,331)
Others	**446**	696
Income tax expenses for the year	**86,336**	78,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Provision of allowances for inventories (included in cost of sales)	–	65,322
Reversal of allowance for doubtful debts, net	(4,767)	(8,231)
Auditor's remuneration	3,880	3,680
Amortisation of prepaid lease payments	3,553	2,697
Depreciation and amortisation		
Depreciation of property, plant and equipment	534,978	453,460
Amortisation of intangible assets (included in administrative expenses)	1,432	1,082
	536,410	454,542
Less: amount included in loss on temporary production suspension	(3,824)	(11,696)
Less: amount included in research and development expenditures	(26,580)	(6,361)
	506,006	436,485
Operating lease payments in respect of rented premises	1,920	3,020
Staff costs, including directors' emoluments		
Salaries and other benefits costs	745,787	649,057
Retirement benefit costs	71,247	55,813
	817,034	704,870
Less: amount included in research and development expenditures	(16,780)	(7,856)
	800,254	697,014
Research and development expenditures (included in other expenses)	90,946	74,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Final dividend paid for 2010 of HK18 cents per share	–	234,270
Interim dividend paid for 2011 of HK3 cents	–	39,045
	–	273,315

The board of directors do not recommend payment of final dividend for the year ended 31 December 2012 (2011: nil).

16. EARNINGS PER SHARE

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

Earnings

	2012 HK$'000	2011 HK$'000
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	**161,977**	104,273

Number of shares

	2012 '000	2011 '000 (restated)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,513,083**	1,387,342

The weighted average number of ordinary shares outstanding during the current and prior years has been adjusted for the bonus effect of rights issue of shares in May 2012.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2011	2,012,228	3,855,458	89,771	58,293	550,103	6,565,853
Exchange adjustments	85,519	173,058	3,992	2,440	28,226	293,235
Additions	35,469	159,662	8,648	5,830	1,030,860	1,240,469
Disposals	(5,032)	(18,102)	(2,805)	(2,406)	–	(28,345)
Reclassification	259,003	555,251	10,743	352	(825,349)	–
At 31 December 2011	2,387,187	4,725,327	110,349	64,509	783,840	8,071,212
Exchange adjustments	21,218	47,077	958	515	27,624	97,392
Additions	35,422	270,212	8,112	1,955	2,916,242	3,231,943
Disposals	(6,393)	(55,523)	(2,862)	(911)	–	(65,689)
Reclassification	241,082	807,502	3,536	263	(1,052,383)	–
At 31 December 2012	2,678,516	5,794,595	120,093	66,331	2,675,323	11,334,858
DEPRECIATION						
At 1 January 2011	287,417	1,519,000	69,918	38,397	–	1,914,732
Exchange adjustments	12,395	68,373	2,936	1,705	–	85,409
Charge for the year	75,340	361,089	8,404	8,627	–	453,460
Eliminated on disposals	(3,140)	(15,639)	(1,515)	(955)	–	(21,249)
At 31 December 2011	372,012	1,932,823	79,743	47,774	–	2,432,352
Exchange adjustments	3,598	19,358	752	441	–	24,149
Charge for the year	84,199	428,546	14,756	7,477	–	534,978
Eliminated on disposals	(5,118)	(27,721)	(2,324)	(682)	–	(35,845)
At 31 December 2012	454,691	2,353,006	92,927	55,010	–	2,955,634
CARRYING AMOUNTS						
At 31 December 2012	2,223,825	3,441,589	27,166	11,321	2,675,323	8,379,224
At 31 December 2011	2,015,175	2,792,504	30,606	16,735	783,840	5,638,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

	2012	2011
	HK$'000	HK$'000
Leasehold land and buildings in Hong Kong:		
Medium-term lease	**110,126**	113,089
Buildings located on the leasehold land in the PRC:		
Medium-term lease	**2,123,699**	1,902,086
	2,223,825	2,015,175

At 31 December 2012, the Group is in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$164,532,000 (2011: HK$63,478,000).

At 31 December 2012, the carrying value of plant and machinery includes an amount of HK$742,795,000 (2011: nil) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

	2012	2011
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC:		
Medium-term lease	**148,030**	113,194
Analysed for reporting purposes as:		
Non-current asset	**144,488**	110,493
Current asset	**3,542**	2,701
	148,030	113,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. GOODWILL

	HK$'000
COST	
At 1 January 2011	3,588
Exchange adjustments	152
At 31 December 2011	3,740
Exchange adjustments	30
At 31 December 2012	3,770

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

	2012	2011
	HK$'000	HK$'000
Bulk medicine	**962**	955
Finished products	**2,808**	2,785
	3,770	3,740

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

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period and discount rate of 14.3% (2011: 11.31%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2011	23,957
Exchange adjustments	1,016
At 31 December 2011	24,973
Addition	1,880
Exchange adjustments	223
At 31 December 2012	27,076
AMORTISATION	
At 1 January 2011	20,687
Exchange adjustments	901
Charge for the year	1,082
At 31 December 2011	22,670
Exchange adjustments	200
Charge for the year	1,432
At 31 December 2012	24,302
CARRYING AMOUNTS	
At 31 December 2012	2,774
At 31 December 2011	2,303

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

Included in intangible assets are licenses with cost of HK$21,349,000 (2011: HK$16,239,000) which are fully amortised at the end of the reporting period and the licenses have expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. AVAILABLE-FOR-SALE INVESTMENT

	2012	2011
	HK$'000	HK$'000
Unlisted investment at cost	**23,417**	23,417
Less: Impairment loss recognised	**(23,417)**	(23,417)
	–	–

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

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

22. INVENTORIES

	2012	2011
	HK$'000	HK$'000
Raw materials	**381,131**	374,476
Work in progress	**423,996**	230,443
Finished goods	**1,008,482**	933,036
	1,813,609	1,537,955

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For the year ended 31 December 2012

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

	2012 HK$'000	2011 HK$'000
Trade and bills receivables	**2,183,560**	2,051,064
Value added tax receivables	**306,123**	96,217
Other receivables, deposits and prepayments	**420,216**	376,360
Less: allowance for doubtful receivables	**(13,110)**	(17,788)
	2,896,789	2,505,853

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

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

	2012 HK$'000	2011 HK$'000
Trade receivables		
0 to 30 days	**545,606**	527,689
31 to 60 days	**379,839**	247,935
61 to 90 days	**161,392**	90,433
91 to 120 days	**59,461**	122,432
121 to 180 days	**24,570**	76,311
Over 180 days	**21,530**	4,432
	1,192,398	1,069,232
Bills receivables		
0 to 30 days	**78,869**	115,130
31 to 60 days	**146,205**	124,258
61 to 90 days	**126,045**	126,332
91 to 120 days	**212,707**	248,146
121 to 180 days	**425,651**	348,513
Over 180 days	**618**	14,960
	990,095	977,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

64% (2011: 72%) of the trade and bills receivables that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$186,514,000 (2011: HK$258,451,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and has been subsequently settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2012 HK$'000	2011 HK$'000
61-90 days	**80,335**	40,316
91-120 days	**59,461**	122,432
121-180 days	**24,570**	76,311
Over 180 days	**22,148**	19,392
	186,514	258,451

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

Movement in the allowance for doubtful debts

	2012 HK$'000	2011 HK$'000
Balance at beginning of the year	**17,788**	24,981
Exchange adjustments	**89**	1,038
Impairment losses recognised on receivables	**1,714**	10,544
Impairment losses reversed	**(6,481)**	(18,775)
Balance at end of the year	**13,110**	17,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

At 31 December 2012, trade and other receivables balance totalling HK$13,110,000 (2011: HK$17,788,000) were individually determined to be impaired, which related to customers that were in financial difficulties. The management assessed that the full amount of the trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

As at 31 December 2012, the Group had HK$1,087,216,000 (2011: HK$1,004,764,000) of bills receivables discounted to several banks with full recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$61,216,000 (2011: HK$17,447,000) bills receivables were issued by the Group's debtors, and the remaining HK$1,026,000,000 (2011: HK$987,317,000) were issued by certain subsidiaries of the Company. Accordingly, the Group continues to recognise the full carrying amount of the Group's receivables and has recognised the cash received on such discount as a secured borrowing (see note 28). In addition, as at 31 December 2012, the Group continues to recognised HK$444,914,000 (2011: HK$417,782,000) of bills receivables issued by the Group's debtors had been endorsed to the Group's creditors (see note 26).

Included in the Group's trade and bills receivables are trade receivables with a carrying amount of HK$351,013,000 (2011: HK$296,469,000) which are denominated in United States dollars and HK$4,613,000 (2011: nil) which are denominated in Euro, being foreign currencies of the respective group entities.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2012	2011
	HK$'000	HK$'000
Foreign currency forward contracts – assets	**4,426**	–
Foreign currency forward contracts – liabilities	**(4,669)**	(1,517)
	(243)	(1,517)

The Group had entered into several USD foreign currency forward contracts with banks and financial institutions to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD96,560,000 (equivalent to HK$753,168,000) (2011: USD58,000,000 (equivalent to HK$452,400,000)). The contracts were subject to net settlement at each maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

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For the year ended 31 December 2012

24. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31 December 2012

Notional amount	Maturity date	Exchange rate
USD19,000,000	Settlement in specific date in each month between 1 January 2013 to 2 December 2014	RMB6.325/USD1 to RMB6.370/USD1
USD77,560,000	Between 26 January 2013 to 10 March 2014	RMB6.24/USD1 to RMB6.40/USD1

31 December 2011

Notional amount	Maturity date	Exchange rate
USD58,000,000	Between 8 February 2012 to 20 December 2012	RMB6.30/USD1 to RMB6.40/USD1

The fair value of derivative financial instruments has been arrived at on the basis of a valuation carried out as of that day by the banks and financial institutions.

25. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged deposits have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see note 35). The range of effective interest rates of the pledged deposits at 31 December 2012 is 0.5% to 3.3% (2011: 0.5% to 3.3%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2012 is 0.001% to 1.15% (2011: 0.001% to 1.31%) per annum.

Included in the Group's bank balances are bank balances with a carrying amount of HK$9,325,000 (2011: HK$53,296,000) which are denominated in USD and HK$5,000 (2011: HK$300,000) which are denominated in Euro, being foreign currencies of the respective group entities.

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

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26. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	2012 HK$'000	2011 HK$'000
Trade payables		
0 to 90 days	**692,371**	813,629
91 to 180 days	**547,085**	467,615
Over 180 days	**29,865**	22,070
	1,269,321	1,303,314
Bills payables		
0 to 90 days	**277,191**	108,261
91 to 180 days	**262,033**	157,859
	539,224	266,120
Other payables and accruals	**346,357**	274,754
Deferred income in respect of government grants	**137,595**	22,635
Payables in respect of the acquisition of property, plant and equipment	**1,124,119**	419,940
	3,416,616	2,286,763

Included in the trade payables and other payables above are HK$351,792,000 and HK$93,122,000 (2011: HK$362,724,000 and HK$55,058,000) respectively that has been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period (see note 23).

Included in the Group's other payables and accruals for the year ended 31 December 2011 are other payables with a carrying amount of HK$1,759,000 which are denominated in Euro, being a foreign currency of the respective group entities.

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27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum leases payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**275,610**	–	**238,950**	–
In more than one year but not more than two years	**275,610**	–	**254,722**	–
In more than two years but not more than five years	**171,912**	–	**167,228**	–
	723,132	–	**660,900**	–
Less: future finance charges	**(62,232)**	–	**N/A**	N/A
Present value of lease obligations	**660,900**	–	**660,900**	–
Less: Amount due from settlement within one year (shown under current liabilities)			**(238,950)**	–
Amount due for settlement after one year			**421,950**	–

During the year ended 31 December 2012, 聯邦制藥(內蒙古)有限公司, an indirect wholly-owned subsidiary of the Company entered into lease agreements with CMB Financial Leasing Co., Ltd. ("Lease Agreements") to fund its expansion of production capacity. Pursuant to the Lease Agreements, 聯邦制藥(內蒙古)有限公司 will sell its existing plant and machinery to CMB Financial Leasing Co., Ltd., who in turn, lease back the plant and machinery to 聯邦制藥(內蒙古)有限公司 at a pre-determined quarterly rent payment for terms of 3 years. At the end of lease, 聯邦制藥(內蒙古)有限公司 has the option to purchase the plant and machinery at RMB1. The sales and lease leaseback arrangement resulted in finance leases. It is the Group's policy to lease certain of its property, plant and equipment under finance leases. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.23% to 5.93% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans	**2,955,823**	2,331,545
Discounted bills with recourse (note 23)	**1,087,216**	1,004,764
Bond	**756,339**	–
Bank overdrafts, secured	**124,095**	–
	4,923,473	3,336,309
Analysed as:		
Secured	**2,442,144**	1,889,145
Unsecured	**2,481,329**	1,447,164
	4,923,473	3,336,309
Carrying amount repayable within one year	**2,067,786**	1,387,775
Carrying amount repayable more than one year, but not exceeding two years	**411,987**	250,000
Carrying amount repayable more than two years but not more than five years	**189,000**	–
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year from the end of reporting period*	**1,673,024**	877,909
Not repayable within one year from the end of reporting period but shown under current liabilities*	**581,676**	820,625
	4,923,473	3,336,309
Less: Amount due within one year shown under current liabilities	**(4,322,486)**	(3,086,309)
Amount shown under non-current liabilities	**600,987**	250,000

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

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28. BORROWINGS *(Continued)*

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

Interest rate

	2012	2011
	HK$'000	HK$'000
People's Bank of China lending rate – floating rate	**1,037,247**	551,746
Fixed rate	**2,397,116**	1,831,198
Hong Kong Interbank Offered Rate plus 1% to 2.5%	**1,489,110**	953,365
	4,923,473	3,336,309

The range of effective interest rates of the floating rate borrowings at 31 December 2012 is 2.10% to 8.50% (2011: 1.96% to 8.56%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2012 is 6.02% to 9.85% (2011: 2.40% to 13.48%) per annum.

During the year ended 31 December 2012, an indirectly owned subsidiary of the Company issued a fixed rate bond of RMB600,000,000 which is unsecured and is not subject to conversion. It carries fixed coupon rate of 4.87% per annum, payable at the maturity date of the bond. The bond issued at par, carries effective interest rate of 6.02% per annum. The principal account of the bond is repayable at par one year from the date of issue of the bond.

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29. DEFERRED TAXATION

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

	Accelerated (tax) accounting depreciation	Unrealised profit on inventories	Undistributed profits of subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	17,896	17,763	(95,735)	(60,076)
Exchange adjustments	1,166	–	–	1,166
Charge to profit or loss for the year	(1,534)	(10,968)	(6,233)	(18,735)
Reallocated to current tax	–	–	26,127	26,127
At 31 December 2011	17,528	6,795	(75,841)	(51,518)
Exchange adjustments	301	–	–	301
Credit (charge) to profit or loss for the year	6,697	890	(4,493)	3,094
Reallocated to current tax	–	–	15,435	15,435
At 31 December 2012	24,526	7,685	(64,899)	(32,688)

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

	2012	2011
	HK$'000	HK$'000
Deferred tax assets	**32,211**	24,323
Deferred tax liabilities	**(64,899)**	(75,841)
	(32,688)	(51,518)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. DEFERRED TAXATION *(Continued)*

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

	2012	2011
	HK$'000	HK$'000
Allowances for doubtful debts	**13,110**	17,788
Allowances for inventories	**35,151**	94,337
	48,261	112,125

The Group has unrecognised tax losses of HK$553,731,000 (2011: HK$156,499,000) at the end of the reporting period. No deferred tax asset has been recognised for such tax losses due to unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$322,266,000 (2011: HK$71,201,000) that will expire within five years. Other losses may be carried forward indefinitely.

30. CONVERTIBLE BONDS

On 14 November 2011, the Company issued RMB denominated US$ settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "Bonds"). An adjustment has been made to the conversion price from HK$7.2 to HK$6.4 as a result of the rights share issued during the year ended 31 December 2012. The Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The Bonds are listed in the Singapore Exchange Securities Trading Limited.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 14 November 2013 redeem all, but not some only, of the Bonds for the time being outstanding at a fixed amount of their RMB principal amount at the settlement date and paid in US$ equivalent translated at the spot rate at the settlement date, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 140% of the conversion price then in effect, translated into RMB at the fixed rate of HK$1.00 = RMB0.8137.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. CONVERTIBLE BONDS *(Continued)*

The fair value of the Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 14 November 2011 and 31 December 2011 and 2012. The movement of liability component and embedded derivatives of the Bonds for the year is set out as below:

	HK$'000
At 1 January 2011	–
Issue of convertible bonds	970,440
Expenses on issue of convertible bonds	(28,910)
Interest charged	13,799
Exchange realignment	3,964
Gain arising on changes of fair value	(5,276)
At 31 December 2011	954,017
Interest charged	110,852
Gain arising on changes of fair value	(56,085)
Interest paid	(72,983)
Exchange realignment	7,630
At 31 December 2012	943,431

At 14 November 2011, 31 December 2011 and 2012, the fair values of the embedded derivatives are calculated using the Binominal Model. Details of the inputs and assumptions of the model are as follows:

	31 December 2012	31 December 2011	14 November 2011
Share price of the Company	**HK$3.70**	HK$4.47	HK$4.95
Exercise price	**HK$6.40**	HK$7.20	HK$7.20
Remaining life	**3.87 years**	4.87 years	5 years
Risk-free rate	**3.557%**	3.371%	3.199%
Expected volatility	**41.35%**	48.30%	46.72%
Expected dividend yield	**0%**	4.83%	4.33%

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2011 and 31 December 2011	1,301,500,000	13,015
Issue of shares	325,375,000	3,254
At 31 December 2012	1,626,875,000	16,269

During the year, the Company issued 325,375,000 rights shares at the issue price of HK$2.21 on the basis of one new share for every four ordinary shares currently held by the respective shareholder. The new shares rank pari passu with the existing shares in all respects.

32. SHARE OPTION SCHEME

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. OPERATING LEASES

The Group as lessee

	2012	2011
	HK$'000	HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**217**	2,068
In the second to fifth years inclusive	**55**	1,207
	272	3,275

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

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

34. CAPITAL COMMITMENTS

	2012	2011
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,557,680**	1,182,746

Included in the Group's capital commitments for the year ended 31 December 2012, the Group have got the confirmation from its constructors with total committed amount of HK$1,067,793,060, not to demand for payment within one year from the end of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2012	2011
	HK$'000	HK$'000
Property, plant and equipment	**1,708,939**	847,099
Prepaid lease payments	**97,677**	65,227
Bills receivables	**213,281**	118,663
Pledged bank deposits	**1,246,403**	589,446
	3,266,300	1,620,435

36. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,000 per month (increase to HK$1,250 per month since 1 June 2012). The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$541,000 (2011: HK$598,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$70,706,000 (2011: HK$55,215,000) are charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. GOVERNMENT GRANTS

Incentive subsidies of HK$13,991,000 (2011: HK$25,538,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

For the year ended 31 December 2012, government subsidies of HK$93,242,000 (2011: HK$8,294,000) were received by the Group to subsidise the acquisition of property, plant and machinery and prepaid lease payments. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to profit or loss of nil (2011: HK$5,432,000). As at 31 December 2012, an amount of HK$103,827,000 (2011: HK$10,585,000) were included in trade and bills payable and accrued charges.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$33,768,000 (2011: HK$12,050,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the profit or loss of HK$6,138,000 (2011: HK$9,431,000).

38. RELATED PARTY DISCLOSURES

Compensation to key management personnel represents directors' remuneration and is disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. LIST OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2012	2011	Principal activities and place of operation
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	US$1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦製藥(成都)有限公司 (note b)	PRC	2012: RMB400,000,000 (2011: RMB250,000,000)	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2012	2011	Principal activities and place of operation
珠海康知樂醫藥有限公司 (note c)	PRC	RMB250,000,000	**100%**	100%	Inactive
珠海聯邦製藥股份有限公司 (note d)	PRC	2012: RMB1,142,496,000 (2011: RMB1,062,496,000)	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦製藥有限公司 (note b)	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦製藥有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣西康樂藥品有限責任公司 (note c)	PRC	RMB5,000,000	**100%**	100%	Trading of pharmaceutical products PRC
珠海樂康醫藥有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 (note b)	PRC	RMB31,249,864	**100%**	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 (note b)	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司 (note c)	PRC	RMB15,000,000	**100%**	100%	Investment holdings PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2012	2011	Principal activities and place of operation
聯邦制藥(內蒙古)有限公司 (note b)	PRC	2012: RMB1,495,000,000 (2011: RMB1,165,200,000)	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
內蒙古光大聯豐生物科技有限公司 (note c)	PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer PRC
Zhuhai United Laboratories FZE (note e)	United Arab Emirates	AED1,000,000	**100%**	–	Trading of pharmaceutical products United Arab Emirates
Zhuhai United Laboratories (India) Private Limited (note f)	India	RUPEE100,000	**100%**	–	Trading of pharmaceutical products India
Zhuhai United Laboratories Europe Import & Export Europe GmbH (note g)	Germany	EUR25,000	**100%**	–	Trading of pharmaceutical products Germany

Notes:

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

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

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

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

(e) A wholly foreign-owned enterprise established in the United Arab Emirates during the year ended 31 December 2012.

(f) A wholly foreign-owned enterprise established in India during the year ended 31 December 2012.

(g) A wholly foreign-owned enterprise established in Germany during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company at the end of the reporting period:

	2012 **HK$'000**	2011 HK$'000
Assets and liabilities		
Investments in a subsidiary	**1**	1
Loan to a subsidiary	**1,298,985**	–
Amounts due from subsidiaries	**3,121,840**	3,573,364
Other receivables and prepayments	**752**	333
Derivative financial instruments	**3,160**	–
Bank balances and cash	**259,762**	203,186
Total assets	**4,684,500**	3,776,884
Other payables and accrued charges	**7,435**	7,382
Amount due to a subsidiary	**275,551**	128,730
Derivative financial instruments	**3,003**	–
Borrowings	**25,000**	55,000
Convertible bonds	**943,431**	954,017
Total liabilities	**1,254,420**	1,145,129
Total assets less liabilities	**3,430,080**	2,631,755
Capital and reserves		
Share capital	**16,269**	13,015
Reserves	**3,413,811**	2,618,740
	3,430,080	2,631,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) Reserves

	Share capital HK$'000	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
As at 1st January, 2011	13,015	1,959,061	467,611	2,439,687
Profit and total comprehensive income for the year	–	–	465,383	465,383
Dividends	–	–	(273,315)	(273,315)
As at 31st December, 2011	13,015	1,959,061	659,679	2,631,755
Issue of new shares upon rights issue	3,254	715,825	–	719,079
Expenses incurred in connection with rights issue	–	(18,592)	–	(18,592)
Profit and total comprehensive income for the year	–	–	97,838	97,838
As at 31st December, 2012	16,269	2,656,294	757,517	3,430,080

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	3,755,856	4,643,177	6,502,817	6,405,039	**7,021,624**
Profit before taxation	532,530	693,370	1,163,280	183,189	**248,313**
Taxation	(102,361)	(151,927)	(189,123)	(78,916)	**(86,336)**
Profit for the year attributable to owners of the Company	430,169	541,443	974,157	104,273	**161,977**

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	6,170,258	7,459,996	9,607,894	11,864,905	**16,141,703**
Total liabilities	(3,353,763)	(4,266,969)	(4,497,952)	(6,688,284)	**(10,047,014)**
Equity attributable to owners of the Company	2,816,495	3,193,027	5,109,942	5,176,621	**6,094,689**