2012 Annual Report

石藥集團有限公司
CSPC PHARMACEUTICAL GROUP LIMITED

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
FENG Zhenying
CHAK Kin Man
PAN Weidong
ZHAO John Huan
WANG Shunlong
WANG Huaiyu
LU Jianmin
WANG Zhenguo

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhenxing
QI Moujia
GUO Shichang
CHAN Siu Keung, Leonard
WANG Bo
ZHANG Fawang

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

Nomination Committee:
CAI Dongchen *(Chairman)*
QI Moujia
CHAN Siu Keung, Leonard

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
HUO Zhenxing

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

CHAK Kin Man
PAN Weidong

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
Wing Hang Bank Limited
Fubon Bank (Hong Kong) Limited
Deutsche Bank, AG
China CITIC Bank
Bank of China
The Hebei Banking Corporation Limited
The Export-Import Bank of China
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
Shanghai Pudong Development Bank Co., Ltd

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

WEBSITES

www.irasia.com/listco/hk/cspc

Chairman's Statement

OVERVIEW

In 2012, the pharmaceutical industry showed a relatively higher growth in comparison to other industries amid slower economic growth in China. Apart from the industry's own development, expansion in the market capacity and support from government policies were also vital to the progression.

With further reforms to China's healthcare system, the pharmaceutical industry has evolved and hygiene standards for drugs and food are being enhanced. After the promulgation of several related policies by the government last year, the standard of management in the pharmaceutical industry was improved and the entry threshold was raised. This has promoted a pattern of healthy development in the market environment.

In 2012, the Group has accomplished strategic transformation. While consolidating its leading advantages in the conventional business, the Group also actively explored the market of new drugs and continued the globalisation of products. The Group believes that it will continue to achieve satisfactory growth in the coming year.

SUCCESSFUL STRATEGIC TRANSFORMATION

In 2012, the Company successfully acquired three pharmaceutical enterprises, namely CSPC Ouyi Pharmaceutical Co., Ltd. ("OYY"), CSPC NBP Pharmaceutical Co., Ltd. ("NBP") and CSPC XNW Pharmaceutical Joint Stock Co., Ltd. ("XNW") to achieve strategic transformation from a manufacturer of bulk drug products to that of innovative and branded drugs. This formed a pattern of development that focuses on innovative and branded drugs together with a diversified product range, and established a new business model of high growth, high profit and volatility resistant.

ACTIVE EXPLORATION IN THE INNOVATIVE DRUG MARKET

After several years of development, the new business has established a strong marketing team for innovative drugs and a sales network covering hospitals of different classes throughout the country. Rapid growth in sales and market shares of the Group's existing innovative drugs, such as "NBP", "Oulaining" and "Xuanning" series, has been recorded since they were launched. In January 2013, "NBP" brand was honoured as a China's Well-known Trademark and "Xuanning" was awarded the State Technological Invention Award (Second Class).

In 2012, the revenue of the above three product series amounted to approximately HK$1,291 million, representing an increase of 103% over the previous year. In the coming years, the Group will further strengthen its sales teams and explore the markets for new applications of the innovative drugs, aiming to expand the business volume of each existing or newly developed drug and establish a leading position in the industry.

CONTINUATION OF PRODUCTS GLOBALISATION

The Group has 34 production lines granted new domestic GMP accreditation in China. The Group also promoted high quality management by progressively introducing advanced management concepts from Europe and U.S.. The Group has obtained 14 CEP certificates and 27 DMF registration numbers, and owns 4 products which have passed the site inspection by the European Union or its member countries. The Group also has 9 products, including meloxicam, tramadol HCl (bulk drug and tablet) and clopidogrel hydrogen sulfate tablet, which have passed the U.S. FDA site inspection. This indicates that the standard of the Group's quality management is comparable with the advanced standards in Europe and U.S., and its products are able to gain a presence in high-end overseas markets.

Chairman's Statement

CONSOLIDATION OF LEADERSHIP IN THE BULK DRUG BUSINESS

In 2012, the Group continued to consolidate its competitive advantages in the bulk drug business. Despite the fact that the major bulk drugs, such as vitamin C and penicillin, faced a number of challenges, the Group was able to maintain its leading position in the market owing to its advanced technologies and lower production costs. Our vitamin C and caffeine products rank first in the global market share, whilst our antibiotic products occupy a leading position in China. Meanwhile, the Group is also actively adjusting its businesses to tackle challenges from the overly competitive industries.

PROSPECTS

The pharmaceutical industry is at the core of the national strategic and emerging industries plan formulated by the government of China. A comprehensive layout of innovative and branded drugs is bound to be a developmental trend in the pharmaceutical industry. The Group will continue to leverage its advantages in research and development to produce products of high gross margin and high demand. With its excellent brands and strong research and development capability, the Group will develop more, newer and better drugs for society, and will also deliver more stable and better return to its shareholders in return for their support.

CAI Dongchen
Chairman

Hong Kong, 28 March 2013

Management Discussion and Analysis

OVERVIEW

In 2012, the Company successfully acquired OYY, NBP and XNW. OYY and NBP, which are engaged in the production of preparations and finished drugs, possess advanced preparations production lines and a range of new drug products. Caffeine, being XNW's major product, boasts a relatively high entry threshold that is protected by the national regulations of psychiatric medicine. The acquisition of the new business accelerated the Group's business transformation, shifting from a business of low added-value and high volatility to one with high growth and high profit margin. With the strong sales growth of the cardio-cerebrovascular and neurological drugs, diversified products portfolio and strength in research and development, the Group not only achieved its annual targets but also recorded a higher growth rate in comparison to its peers. For the year ended 31 December 2012, the Group recorded a revenue of HK$4,146 million and a profit attributable to shareholders of HK$2,162 million.

INNOVATIVE DRUG BUSINESS

"NBP" Series

The "NBP" soft capsule is a Class I patent drug in China and the first patent drug for treating cerebrovascular disease developed by a Chinese company. It was awarded the State Science and Technology Progress Award (Second Class) by the State Council in December 2009. In 2010, the "NBP" injection was launched to further enhance the product portfolio. "NBP" is an exclusive patent drug with no direct competition from similar products. Its growth rate is the highest among those acute ischemic stroke products.

In 2012, the revenue of the "NBP" soft capsule was HK$521 million, representing an increase of 58% over last year. The revenue of the "NBP" injection was HK$156 million, representing an increase of 360% over last year.

"Oulaining" Series

"Oulaining" series, available in the form of capsule and lyophilized powder injection, can improve the memory and learning function of patients suffering from dementia and dysmnesia. In 2012, the revenue of "Oulaining" capsules was HK$112 million, representing an increase of 26% over last year, and the revenue of "Oulaining" lyophilized powder was HK$337 million, representing an increase of 466% over last year.

"Xuanning" Series

"Xuanning" series, available in the form of tablet and dispersible tablet, is a newly developed drug of the Group for treating hypertension. Its efficacy and safety are higher than similar products. The series recorded a revenue of HK$165 million in 2012, representing a growth of 34% over last year.

GENERIC DRUG BUSINESS

In 2012, the Group overcame the adverse impact on its generic drug business caused by unfavourable policies concerning restrictions on the use of antibiotics and essential drug tenders. With our efforts to adjust the strategies, strengthen the sales team and expand the distribution channels in time, this business was able to achieve a stable growth and develop a momentum of continuous improvement.

Management Discussion and Analysis

BULK DRUGS BUSINESS

Vitamin C Series

In 2012, excess capacity continued in the vitamin C market and competition in the industry escalated. The Group kept its dominant position in the industry with its strength in scale, quality and production cost. According to China Customs data, the Group's vitamin C products accounted for approximately 26% of export volume in 2012, ranking first in the country, and was 13% higher than the company in second place. However, the business recorded a loss in 2012 due to pressure on product prices.

Antibiotic Series

In 2012, the antibiotic business faced severe challenges on account of the implementation of the restrictions on the use of antibiotics and the aggravating over-capacity. Owing to our efforts to improve technology, strengthen internal management and reduce energy consumption, production costs continued to decrease. However, the business still recorded a loss in 2012 due to an overall low price level.

Caffeine Series

With the continuous efforts made by the Group to achieve production and technological upgrades and the application of a new fermentation process, the production cost of caffeine was significantly lowered. The Group, representing approximately 58% of the total global capacity, ranks first in the world. In 2012, the revenue of our caffeine series was HK$515 million, signifying an increase of 36% over last year.

RESEARCH AND DEVELOPMENT

The Group has a relatively integrated and all rounded team with strong technological advantages in various technical areas. It currently has 167 new drugs under research, including 12 class I new drugs (innovative patent drug) and 37 class III new drugs, with focus mainly on the areas of cardio-cerebrovascular, neurology, diabetes and cancer.

OUTLOOK

Industry Outlook

In recent years, great changes have taken place in the country's age distribution. In the next 10 years, the accelerating aging population will generate increasing demand for drugs. Coupled with the current urbanisation policy, it is expected that demand in the pharmaceutical industry will continue to grow in 2013. Medical reforms will continue, with policies covering the adjustment of essential drugs, the separation of consultation and medicine prescription and the new round of drug tenders. Where research and development are concerned, the government will continue to support the innovation efforts of enterprises; thereby driving pharmaceutical enterprises to increase their investments in research and development. In 2013, the price of drugs is expected to remain stable, although a slight decrease may occur. Coupled with the relatively abundant medical insurance fund and the promotion of GMP accreditation, industry concentration is expected to improve.

OUTLOOK *(continued)*

Outlook of the Group's Business

Innovative Drug Business

Upholding the concept of stronger development, we will make the most of our well-established market network, expanding professional marketing team and strong product portfolio to ensure that the Group's innovative drug business will maintain its fast growing momentum and increase its profit contribution.

Generic Drug Business

The Group will continue to keep abreast of the national policies and explore the end market. With the well-established sales network and our efforts effects to strengthen the sales team, the generic drug business is expected to maintain a stable growth in 2013.

Bulk Drug Business

The Group will continue to conduct technological upgrades, lower production cost, initiate high-end product accreditation and enhance product quality with an aim to keeping its leading status in the market. On account of the Group's strong presence in the bulk drugs industry, it is expected that a good return will be made in the next upward cycle. For the overly competitive market, we will consider adjusting the business strategy accordingly.

Research and Development

In 2013, the Group will continue to increase its resources in research and development. In the next few years, it is expected that a number of innovative drugs will be launched upon receiving production approvals, such as rE4 and DBPR108 (diabetes drug); pinocembrin (acute stroke drug); levamlodipine maleate atorvastatin calcium tablet (high blood pressure and lipid drug); and baicalein (viral influenza drug). This product pipeline will support the continuous growth of the Group's performance. As for product globalisation, the Group will apply for international accreditation, such as the U.S. FDA, so that we can sell its products to high-end markets and obtain privileged pricing in China.

FINANCIAL REVIEW

Liquidity and financial position

In 2012, the Group's operating activities generated a net cash inflow of HK$498 million. Debtor turnover period (ratio of the balance of trade receivables to sales, inclusive of value added tax for sales in China) in the current year was 69 days *(Note)*. Inventory turnover period (ratio of inventory balance to cost of sales) was 109 days *(Note)*. As at 31 December 2012, current ratio of the Group was 1.1. Capital expenditure in relation to the additions of production facilities amounted to HK$411 million for the current year.

The financial position of the Group remained healthy. As at 31 December 2012, total bank balances and cash amounted to HK$1,476 million and total bank borrowings amounted to HK$2,316 million. Of the total bank borrowings, HK$1,817 million will be repayable within one year and the remaining HK$499 million repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total bank borrowings net of bank balances and cash over total equity) was 12.4%.

28.3% of the Group's borrowings are denominated in Hong Kong dollars, 14.5% in US dollars and the remaining 57.2% in Renminbi. The Group's revenue is mainly denominated either in Renminbi or in US dollars. The Group has been monitoring closely the currency movement and will use appropriate hedging arrangements to reduce the foreign exchange risk when considered necessary.

Note: calculated on the basis of annualized revenue or cost of sales

FINANCIAL REVIEW *(continued)*

Contingent liabilities

The Company and CSPC Weisheng Pharmaceutical (Shijiazhuang) Co. Ltd. ("Weisheng", a wholly owned subsidiary of the Company) are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States of America (the "United States") and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. The plaintiffs purported to bring these cases on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antirust, unfair trade and consumer protection statutes. The plaintiffs (purportedly as representatives of classes of similarly situated purchasers) seek damages and other relief.

Jury trial of the direct purchaser action commenced on 25 February 2013. On 12 March 2013, the Company and Weisheng reached a settlement agreement in principle with the plaintiffs in the direct purchaser action. Counsel for the Company and Weisheng and plaintiffs' counsel reported to the Court the principles of the settlement agreement and the Court ordered the settlement be concluded. On 15 March 2013, the Company, Weisheng and plaintiffs executed the settlement agreement (the "Settlement Agreement"). The settlement will resolve all the claims in their entirety and terminate the litigation in the direct purchaser action. The settlement, in the amount of US$22.5 million, is payable in two installments and subject to approval by the Court. The first US$20 million will be paid within 40 days after the execution of the Settlement Agreement. The remaining US$2.5 million will be paid within 365 days after the Court's final approval of the Settlement Agreement. Plaintiffs' attorney fees and settlement administration fees are to be paid out of the settlement fund.

In accordance with the Settlement Agreement, plaintiffs will file a motion for preliminary approval of the settlement before 15 April 2013. The Court will hold a final approval hearing to determine if the settlement is fair, reasonable and adequate.

It should be noted that the above settlement does not apply to the actions brought by the indirect purchasers, where such actions were stayed until final judgment is entered by the Court in the direct purchaser action.

Further information on the antitrust complaints is set out in note 45 to the consolidated financial statements.

Employees

As at 31 December 2012, the Group had about 13,019 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

Results of the Robust Sun Holdings Limited and its subsidiaries (the "Robust Sun Group") for the year ended 31 December 2012

For the year ended 31 December 2012, the Robust Sun Group recorded a net profit which exceeded HK$600 million. Therefore, no adjustment to the principal amount of the Tranche I Bonds is required in accordance with the terms of the Convertible Bonds as disclosed in the circular of the Company dated 27 September 2012.

SUSTAINABLE DEVELOPMENT STRATEGY

After the acquisition of OYY, NBP and XNW in October 2012, the Group has achieved strategic transformation from a manufacturer of bulk drug products to that of innovative and branded drugs. As mentioned in the Chairman's Statement, the Group will pursue the development strategies of "Active Exploration in the Innovative Drug Market", "Continuation of Products Globalisation" and "Consolidation of Leadership in the Bulk Drug Business" in order to achieve long-term sustainable growth.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to our shareholders for their support and to our staff for their contribution and diligence for the year.

By order of the Board
CAI Dongchen
Chairman

Hong Kong, 28 March 2013

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2012 with deviations from code provisions A.2.1 and A.6.7 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and six independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 19 to 21 of this annual report.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2012. Individual attendance of each director at the regular board meetings and committee meetings in 2012 is set out below:

	Number of meetings attended/held			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Cai Dongchen *(Chairman and CEO)*	4/4			1/1
Feng Zhenying	4/4			
Chak Kin Man	4/4			
Pan Weidong	4/4			
Zhao John Huan	3/4			
Wang Shunlong	4/4			
Wang Huaiyu	4/4			
Lu Jianmin	4/4			
Wang Zhenguo	4/4			
Non-Executive Director:				
Lee Ka Sze, Carmelo	4/4	4/4	3/3	
Independent Non-Executive Directors:				
Huo Zhenxing	4/4	4/4	3/3	
Qi Moujia	4/4			1/1
Guo Shichang	3/4			
Chan Siu Keung, Leonard	4/4	4/4	3/3	1/1
Wang Bao *	N/A			
Zhang Fazwang *	N/A			

* (appointed on 21 December 2012)

BOARD OF DIRECTORS *(continued)*

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of two to three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Three meetings were held in 2012 to consider and make recommendations to the Board on the remuneration of directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for making recommendations to the Board on appointment of directors regarding the qualification and competency of the candidates, so as to ensure that all nominations are fair and transparent. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Qi Moujia and Mr. Chan Siu Keung, Leonard.

During the year under review, the Nomination Committee held a meeting to review the appointment of new independent non-executive directors of the Company, the structure, size and composition of the Board, assess the independence of independent non-executive directors and review the re-election of the retiring directors at the forthcoming 2013 annual general meeting.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhenxing.

Four meetings were held in 2012. At the meetings, the committee discussed and reviewed the following matters:

1. the 2011 annual results, annual report and results announcement;
2. the external auditor's report to the Audit Committee in respect of the 2011 annual audit;
3. the quarterly results for the three months ended 31 March 2012 and results announcement;
4. the 2012 interim results, interim report and results announcement;
5. the external auditor's report to the Audit Committee in respect of the 2012 interim review;
6. the quarterly results for the nine months ended 30 September 2012 and results announcement; and
7. the performance of the external auditor and its remuneration.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary.

All directors (except Mr. Wang Bo and Mr. Zhang Fawang who were only appointed as new independent non-executive directors of the Company on 21 December 2012) have complied with the code provision A.6.5 of the Code during the period from 1 April 2012 to 31 December 2012 through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending seminars in relation to corporate governance and regulatory requirements;
2. attending seminars/courses/conferences to development professional skills and knowledge; and
3. Site visit.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. In addition, the review has considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and their training programmes and budget. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$4,100,000 for audit services and HK$7,061,000 for non-audit services. The non-audit services consist of preparation of accountant's report, review of half-yearly financial statements and certain agreed-upon procedures.

FINANCIAL REPORTING

The Directors' responsibilities for the financial statements are set out on page 28 and the responsibilities of the external auditor are set out on page 28 of this annual report. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo. Mr. Lee is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2012, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholder is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

In order to enable shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website at www.irasia.com/listco/hk/cspc. Shareholders may also make enquiries with the Board at the general meetings of the Company.

GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

In accordance with Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), shareholder(s) holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, may convene an extraordinary general meeting ("EGM"). The written requisition must state the objects of the meeting, and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company at Suite 3206, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more Shareholders concerned.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening an EGM is given, the shareholder(s) concerned or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months from such date. The EGM convened by Shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the Directors.

PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING

In accordance with Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), the following shareholders namely:

(a) any number of members representing not less than 2.5% of the total voting rights of the Company on the date of the requisition; or

(b) not less than 50 members holding shares in the Company on which there has been paid up on average sum, per member, of not less than HK$2,000;

are entitled to submit a requisition in writing requesting the Company:

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

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A requisition signed by the shareholders concerned (or 2 or more copies which between them containing signatures of all the shareholders concerned) must be deposited at the registered office of the Company at Suite 3206, 32nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the attention of the Company Secretary not less than 6 weeks before an annual general meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before an annual general meeting in case of any other requisition. In addition, the concerned shareholders must deposit with the requisition a sum reasonably sufficient to meet the expenses in giving effect the above. However, if, after a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date 6 weeks or less after the requisition has been deposited, the requisition though not deposited within the time required as referred to above shall be deemed to have been properly deposited.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been unloaded to the Company's website.

2012 GENERAL MEETING

At the 2012 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee and Remuneration Committee has attended the 2012 annual general meeting to ensure effective communication with shareholders. In addition, the Company held an extraordinary general meeting on 19 October 2012 to consider and approve the very substantial transaction, connected transaction and increase of authorized share capital. The chairman of the Independent Board Committee has attended the extraordinary general meeting held on 19 October 2012 to answer questions related to the connected transaction. The attendance record of the Directors at the general meetings is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	2/2
Feng Zhenying	0/2
Chak Kin Man	2/2
Pan Weidong	0/2
Zhao John Huan	0/2
Wang Shunlong	1/2
Wang Huaiyu	0/2
Lu Jianmin	0/2
Wang Zhenguo	0/2
Non-Executive Director:	
Lee Ka Sze, Carmelo	2/2
Independent Non-Executive Directors:	
Huo Zhenxing	0/2
Qi Moujia	0/2
Guo Shichang	0/2
Chan Siu Keung, Leonard	2/2
Wang Bao *	N/A
Zhang Fazwang *	N/A

* (appointed on 21 December 2012)

Due to personal commitments, Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang, the independent non-executive directors of the Company, did not attend the annual general meeting of the Company held on 25 May 2012 and the extraordinary general meeting held on 19 October 2012. These constitute a deviation of the code provision A.6.7 of the Code.

CONSTITUTIONAL DOCUMENTS

During the year under review, there is no change in the Company's constitutional documents.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and jointly controlled entity are set out in notes 47 and 21 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

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

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 30 of the annual report.

The Board of Directors recommends the payment of a final dividend of HK10 cents per share in respect of the year ended 31 December 2012. Subject to approval by the shareholders at the forthcoming annual general meeting, payment of the final dividend will be made on or around 17 June 2013.

The register of members of the Company will be closed from Monday, 20 May 2013 to Thursday, 23 May 2013 both days inclusive, during which period no transfer of shares Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Thursday, 23 May 2013, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 16 May 2013.

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Thursday, 30 May 2013, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30p.m. on Tuesday, 28 May 2013.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2012 comprised the retained profits of approximately HK$388,261,000 (2011: HK$299,712,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$410,733,000 during the year. Details of these and movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and the share option scheme of the Company are set out in notes 36 and 38 to the consolidated financial statements, respectively.

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

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Dongchen, Chairman and Chief Executive Officer	
Feng Zhenying	
Chak Kin Man	
Pan Weidong	
Zhao John Huan	
Wang Shunlong	
Wang Huaiyu	
Lu Jianmin	
Wang Zhenguo	(appointed on 20 January 2012)

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhenxing	
Qi Moujia	
Guo Shichang	
Chan Siu Keung, Leonard	
Wang Bo	(appointed on 21 December 2012)
Zhang Fawang	(appointed on 21 December 2012)

In accordance with Article 92 of the Company's Articles of Association, Messrs. Wang Bo and Zhang Fawang retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Chak Kin Man, Pan Weidong, Wang Huaiyu, Lu Jianmin and Guo Shichang retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 59, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. He is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 12th National People's Congress of the People's Republic of China (the "PRC").

FENG Zhenying

Mr. Feng, aged 57, was appointed as an executive director of the Company in 2003. He is also a director of certain subsidiaries of the Group. He graduated from Hebei Chemical College and has extensive technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 47, was appointed as an executive director of the Company in 2005. He is also a director of certain subsidiaries of the Group. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance and accounting.

PAN Weidong

Mr. Pan, aged 43, was appointed as an executive director of the Company in 2006. He is also a director of certain subsidiaries of the Group. He graduated from Shijiazhuang Post College and has extensive experience in finance and accounting.

ZHAO John Huan

Mr. Zhao, aged 50, was appointed as an executive director of the Company in 2008. He holds a MBA degree from Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. Mr. Zhao has extensive experience in senior management positions at several companies in the United States and the PRC. Mr. Zhao is currently a vice president and executive director of Legend Holdings Limited and the CEO of Hony Capital Limited.

Mr. Zhao is also a non-executive director of China Glass Holdings Limited (listed on The Stock Exchange of Hong Kong Limited), a non-executive director of Wumart Stores, Inc. (listed on The Stock Exchange of Hong Kong Limited), a director of Simcere Pharmaceutical Group (listed on New York Stock Exchange), an independent director of Gemdale Holdings Co., Limited (listed on Shanghai Stock Exchange) and a non-executive non-independent director of Biosensors International Group, Ltd. (listed on Singapore Exchange Limited).

WANG Shunlong

Mr. Wang, aged 48, was appointed as an executive director of the Company in 2008. He holds a doctorate degree in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning. Mr. Wang is currently a managing director of Hony Capital Limited and a director of Massive Giant Group Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(continued)

WANG Huaiyu

Mr. Wang, aged 50, was appointed as an executive director of the Company in 2010. He is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu, aged 54, was appointed as an executive director of the Company in 2010. Mr. Lu has extensive technical and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 43, was appointed as an executive director of the Company in 2012. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

LEE Ka Sze, Carmelo

Mr. Lee, aged 52, was appointed as an independent non-executive director of the Company in 1996 and redesignated as a non-executive director in 2004. He is also a member of the Audit Committee and Remuneration Committee and the company secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. He is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. Mr. Lee is currently the chairman of the Listing Committee of The Stock Exchange of Hong Kong Limited and a member of the SFC (HKEC) Committee.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, Yugang International Limited, Y.T. Realty Group Limited, Safety Godown Company, Limited and Termbray Industries International (Holdings) Limited, and an independent non-executive director of KWG Property Holding Limited and Ping An Insurance (Group) Company of China, Ltd. All of the above companies are listed on The Stock Exchange of Hong Kong Limited.

Mr. Lee resigned as a non-executive director of The Cross-Harbour (Holdings) Limited (listed on the Stock Exchange of Hong Kong Limited) with effect from 31 December 2012.

HUO Zhenxing

Mr. Huo, aged 77, was appointed as an independent non-executive director of the Company in 1994. He is also a member of the Audit Committee and Remuneration Committee of the Company. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Moujia

Mr. Qi, aged 80, was appointed as an independent non-executive director of the Company in 1996. He is also a member of the Nomination Committee of the Company. He was the deputy commissioner and commissioner of the State Drug Administration of China (now known as the State Food and Drug Administration of China) during 1978-1982 and 1982-1994, respectively.

Mr. Qi is also an independent director of 3SBio, Inc. (listed on NASDAQ).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(continued)

GUO Shichang

Mr. Guo, aged 71, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government in the PRC from 1993 to 2002.

Mr. Guo is also an independent director of North China Pharmaceutical Company Limited (listed on the Shanghai Stock Exchange).

CHAN Siu Keung, Leonard

Mr. Chan, aged 55, was appointed as an independent non-executive director of the Company in 2004. He is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

Mr. Chan is also an executive director of Tern Properties Company Limited (listed on The Stock Exchange of Hong Kong Limited).

WANG Bo

Mr. Wang, aged 52, was appointed as an independent non-executive director of the Company in 2012. He is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. He is currently the vice-chairman of Chinese Pharmaceutical Enterprises Association and China National Association of Pharmaceutical and Medical Equipment Technical Market.

Mr. Wang is also currently an independent non-executive director of Winteam Pharmaceutical Group Ltd. (listed on The Stock Exchange of Hong Kong Limited), independent director of Jiangsu Wuzhong Industrial Co., Ltd. (listed on Shanghai Stock Exchange), Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange), Guangxi Liuzhou Pharmaceutical Co., Ltd. and Mudanjiang Youbo Pharmaceutical Co. Ltd.. In addition, he was formerly an independent director of China Resources Double-crane Pharmaceutical Co., Ltd (listed on Shanghai Stock Exchange).

ZHANG Fawang

Mr. Zhang, aged 58, was appointed as an independent non-executive director of the Company in 2012. He was formerly the vice-mayor of Shijiazhuang City, Hebei Province. Mr. Zhang holds a bachelor degree in Chinese from Hebei University.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries or subsidiaries was a party and 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' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company	Number of underlying shares interested under the Convertible Bonds	Approximate percentage of the issued share capital of the company
Cai Dongchen	Beneficial owner	4,438,000	0.16%	—	—
Chak Kin Man	Beneficial owner	4,000	0.00015%	—	—
Zhao John Huan	Interest of controlled corporation	2,034,173,430 *(Note)*	74.64%	3,120,118,804 *(Note)*	114.48%

Notes:

Mr. Zhao John Huan is deemed to be interested in 2,034,173,430 shares and 3,120,118,804 shares underlying the convertible bonds through Hony Capital Management Limited ("HCML"), which is owned as to 55% by Mr. Zhao John Huan and 45% by Right Lane Limited ("RLL"). HCML, through its direct and indirect wholly owned subsidiaries controls the general partner of a fund vehicle, Hony Capital Fund III, L.P. ("HCFLP"), which wholly owns March Rise Limited("MRL"). MRL owns 75% of Massive Top Limited ("MTL"). MTL wholly owns Shijiazhuang Pharmaceutical Group Company Limited ("SPG"), Massive Giant Group Limited ("MGGL") and Joyful Horizon Limited ("JHL"). SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 2,034,173,430 shares. JHL was issued with convertible bonds in the aggregate principal amount of HK$6,708,255,429.70 (the "Convertible Bonds") by the Company on 29 October 2012. The Convertible Bonds entitle the holders thereof to convert into shares at an initial conversion price of HK$2.15 per share, subject to adjustments. These 3,120,118,804 shares represent such number of underlying shares which will be issued to JHL upon full conversion of the Convertible Bonds at the initial conversion price of HK$2.15.

China Charmaine Pharmaceutical Company Limited ("CCPCL"), a direct wholly owned subsidiary of SPG, and Jinling Investment Limited ("Jinling"), a direct wholly owned subsidiary of CCPCL, holds 55,036,000 and 791,670,000 shares, respectively. MGGL and JHL hold 783,482,393 and 403,985,037 shares, respectively.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 38 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company	Number of underlying shares interested under the Convertible Bonds	Approximate percentage of the issued share capital of the company
Legend Holdings Limited ("Legend")	Interest of controlled corporation	2,034,173,430 *(Note)*	74.64%	3,120,118,804 *(Note)*	114.48%

Notes:

Legend is deemed to be interested in 2,034,173,430 shares and 3,120,118,804 shares underlying the convertible bonds through HCML, which is owned as to 55% by Mr. Zhao John Huan and 45% by RLL. RLL is wholly owned by Legend. HCML, through its direct and indirect wholly owned subsidiaries controls the general partner of a fund vehicle, HCFLP, which wholly owns MRL. MRL owns 75% of MTL. MTL wholly owns SPG, MGGL and JHL. SPG (through its direct and indirect wholly owned subsidiaries), MGGL and JHL hold an aggregate of 2,034,173,430 shares. JHL was issued with the Convertible Bonds by the Company on 29 October 2012. The Convertible Bonds entitle the holders thereof to convert into shares at an initial conversion price of HK$2.15 per share, subject to adjustments. These 3,120,118,804 shares represent such number of underlying shares which will be issued to JHL upon full conversion of the Convertible Bonds at the initial conversion price of HK$2.15.

CCPCL, a direct wholly owned subsidiary of SPG, and Jinling, a direct wholly owned subsidiary of CCPCL, holds 55,036,000 and 791,670,000 shares, respectively. MGGL and JHL holds 783,482,393 and 403,985,037 shares, respectively.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at 31 December 2012.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions:

Name of company	Nature of transactions	Transaction amount for 2012 *HKD '000*
Shijiazhuang Pharmaceutical Group Company Limited and its subsidiaries	1. Sales of vitamin C products *(note a)*	1,086
	2. Product processing services *(note b)*	—
	3. Sale of antibiotics products *(note c)*	—
	4. Sale of finished drugs *(note d)*	65,302
	5. Sale of finished drugs *(note e)*	20,855
	6. Rental expenses *(note f)*	1,096
	7. Rental expenses *(note g)*	2,045
	8. Sale of antibiotics products *(note h)*	18,173

	Nature of transactions	Transaction amount from 29 October 2012 to 31 December 2012 *HKD '000*
	1. Purchase of pharmaceutical products *(note k)*	470
	2. Sales of pharmaceutical products *(note k)*	22,718

Name of company	Nature of transactions	Transaction amount for 2012 *HKD '000*
Guangdong Titan Pharmaceutical Co. Ltd.	1. Sale of intermediate products *(note i)*	95,211
	2. Sales of pharmaceutical products *(note j)*	22,166

CONNECTED TRANSACTIONS *(continued)*

Notes:

(a) On 13 May 2009, CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. ("Weisheng"), a wholly-owned subsidiary of the Company, entered into an agreement with CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi"), a wholly owned subsidiary of SPG, in relation to the sale of vitamin C products for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

After the Completion of Acquisition dated 29 October 2012, Ouyi has become a subsidiary of the Group and is no longer a connected person of the Group under the Rules Governing of Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

(b) On 13 May 2009, CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. ("Zhongnuo") (note I), a wholly-owned subsidiary of the Company, entered into an agreement with Ouyi and pursuant to which Ouyi provides product processing services to Zhongnuo for various cephalosporin powder injection products, for a term of three years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to obtain reliable processing services for the Group's products.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

After the Completion of Acquisition dated 29 October 2012, Ouyi has become a subsidiary of the Group and is no longer a connected person of the Group under the Listing Rules.

(c) On 13 May 2009, CSPC Hebei Zhongrun Pharmaceutical Co., Ltd. ("Zhongrun") (note I), a non wholly-owned subsidiary of the Company, entered into an agreement with Ouyi in relation to the sale of antibiotics products for a term of 3 years from 13 May 2009 to 12 May 2012. By entering into this agreement, the Group was able to maintain and expand the business relationship with Ouyi.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 13 May 2009.

After the Completion of Acquisition dated 29 October 2012, Ouyi has become a subsidiary of the Group and is no longer a connected person of the Group under the Listing Rules.

(d) On 10 January 2011, Zhongnuo and CSPC Yinhu Pharmaceutical Co., Ltd. ("Yinhu"), a non wholly-owned subsidiary of the Company, entered into an agreement with CSPC Hebei Zhongchen Pharmaceutical Co., Ltd. ("Zhongchen"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drug products for a term of 3 years from 1 January 2011 to 31 December 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Zhongchen.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 10 January 2011.

After the Completion of Acquisition dated 29 October 2012, the Group has entered into a Mutual Supply agreement with SPG and its subsidiaries and the original agreement is then cancelled, please refer to note (k) for details.

(e) On 23 August 2010, Zhongnuo entered into an agreement with Hebei Aipu Pharmaceutical Co., Ltd. ("Aipu"), a non wholly-owned subsidiary of SPG, in relation to the sale of finished drugs products for a term of 3 years from 23 August 2010 to 22 August 2013. By entering into this agreement, the Group will be able to maintain and expand the business relationship with Aipu.

The extent of these connected transactions did not exceed the limit as set out in the announcement of the Company dated 23 August 2010.

After the Completion of Acquisition dated 29 October 2012, the Group has entered into a Mutual Supply agreement with SPG and its subsidiaries and the original agreement is then cancelled, please refer to note (k) for details.

CONNECTED TRANSACTIONS *(continued)*

Notes: (continued)

(f) On 5 March 2009, Zhongnuo entered into a lease agreement with SPG to lease two factory buildings and a staff dormitory located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of three years commencing on 5 March 2009 with the monthly rental of RMB427,108. The agreement was not renewed after the expiration of the agreement, Zhongnuo did not enter a renewal agreement with SPG and SPG provides these two factory buildings to the Group free of charge thereafter.

(g) On 20 July 2002, Zhongnuo entered into another agreement with SPG to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC from SPG for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised to RMB138,033 on 1 August 2009 for a term of three years.

The Group's rental expenses were paid in accordance with the relevant tenancy agreements.

(h) On 30 June 2011, CSPC (Shijiazhuang) High Medical Technology Development Co., Ltd. ("Gaoke") (note l) entered into an agreement with Ouyi in relation to the sales of antibiotic products for a term of three years from 1 July 2011 to 30 June 2014. By entering into this agreement, the Group should be able to maintain and expand the business relationship with Ouyi.

The extent of these transactions did not exceed the limit as set out in the announcement of the Company dated 30 June 2011.

(i) On 3 May 2012, Siping entered into another agreement with Guangdong Titan in relation to the sales of pharmaceutical intermediate products for a term of three years from 3 May 2012 to 30 April 2015. By entering into the agreement, the Group will be able to maintain the business relationship with Guangdong Titan.

The extent of these connected sales did not exceed the limit as set out in the announcement of the Company dated 29 July 2008 and 3 May 2012 respectively.

(j) On 10 September 2012, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. entered into an agreement with Guangdong Titan in relation to the sales of antibiotics products for a term of three years from 10 September 2012 to 9 September 2015. By entering into the agreement, the Group will be able to maintain the business relationship with Guangdong Titan.

The extent of these transactions did not exceed the limit as set out in the announcement of the Company dated 10 September 2012.

(k) On 1 November 2012, Group Members which include Zhongnuo, Yinhu, CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd ("Zhongqi"), Ouyi, CSPC NBP Pharmaceutical Co., Ltd ("NBP") and CSPC XNW Pharmaceutical Joint Stock Co., Ltd. ("XNW") entered into a Mutual Supply Framework Agreement with SPG and its subsidiaries in relation to purchase and sales of pharmaceutical product for a term of three years from 1 November 2012 to 31 October 2014. By entering into this agreement, Group Members should be able to maintain and expand the business relationship with SPG and its subsidiaries.

The extent of these transactions did not exceed the limit as set out in the announcement of the Company dated 1 November 2012.

(l) During the period, Zhangnuo, Gaoke and Heibei Hong Yuan Chemical Co., Ltd merged into Zhongrun to became one single company and Zhongrun was renamed as CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain procedures in respect of the continuing connected transactions of the Group. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

CONNECTED TRANSACTIONS *(continued)*

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 38 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

AUDITOR

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

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 28 March 2013

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(Formerly known as China Pharmaceutical Group Limited 中國製藥集團有限公司)
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 28 March 2013

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (restated)
Revenue	9	**4,146,444**	2,407,445
Cost of sales		**(2,341,104)**	(1,370,535)
Gross profit		**1,805,340**	1,036,910
Other income		**38,693**	28,010
Selling and distribution expenses		**(757,297)**	(452,844)
Administrative expenses		**(235,363)**	(138,325)
Other expenses		**(87,797)**	(31,140)
Operating profit		**763,576**	442,611
Finance costs	10	**(60,090)**	(21,705)
Recognition of fair values of financial guarantee contracts issued	45(ii)	**(5,130)**	(17,676)
Amortisation of financial guarantee liabilities	45(ii)	**18,485**	14,908
Changes in fair value of convertible bonds	37	**(222,739)**	—
Gain on bargain purchase	44	**1,810,702**	
Share of result of a jointly controlled entity		**(3,981)**	—
Profit before tax	11	**2,300,823**	418,138
Income tax expense	12	**(131,975)**	(60,964)
Profit for the year		**2,168,848**	357,174
Other comprehensive income net of income tax:			
Exchange differences arising on translation to presentation currency		**34,564**	40,184
Total comprehensive income for the year		**2,203,412**	397,358
Profit for the year attributable to:			
Owners of the Company		**2,162,235**	355,411
Non-controlling interests		**6,613**	1,763
		2,168,848	357,174
Total comprehensive income attributable to:			
Owners of the Company		**2,194,755**	395,077
Non-controlling interests		**8,657**	2,281
		2,203,412	397,358
		HK cents	*HK cents*
Earnings per share			
Basic	16	**147.78**	29.73
Diluted	16	**52.04**	8.24

Consolidated Statement Of Financial Position

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Non-current assets				
Property, plant and equipment	17	**6,134,372**	909,376	608,094
Prepaid lease payments	18	**536,340**	129,221	69,134
Goodwill	19	**102,716**	101,448	96,674
Other intangible assets	20	**23,146**	5,988	4,679
Deposit for acquisition of prepaid lease payment		**—**	—	29,412
Interest in a jointly controlled entity	21	**32,420**	—	—
Available-for-sale investments	22	**1,705**	—	—
Deferred tax assets	34	**58,160**	1,493	5,708
		6,888,859	1,147,526	813,701
Current assets				
Inventories	23	**2,022,406**	304,490	218,821
Trade and other receivables	24	**2,373,229**	450,510	358,218
Bills receivables	25	**738,490**	112,558	83,057
Trade receivables due from related companies	26(i)	**88,417**	43,411	14,469
Amounts due from related companies	26(i)	**14,388**	31,534	23,566
Amount due from a jointly controlled entity	26(ii)	**63,919**	—	—
Prepaid lease payments	18	**14,750**	3,431	2,104
Tax recoverable		**16,674**	219	5
Held for trading investments	28	**527**	490	573
Derivative financial instruments	33	**623**	—	—
Restricted bank deposits	29	**26,452**	4,322	70,820
Bank balances and cash	29	**1,449,977**	310,423	172,895
		6,809,852	1,261,388	944,528
Current liabilities				
Trade and other payables	30	**2,718,093**	538,908	389,133
Bills payables	31	**730,326**	13,951	54,921
Trade payables due to related companies	26(i)	**544**	41,384	23,463
Trade payables due to a jointly controlled entity	26(ii)	**5,360**	—	—
Amounts due to related companies	26(i)	**722,794**	475,406	384,180
Tax liabilities		**39,345**	12,144	3,455
Financial guarantee contracts	45(ii)	**—**	13,355	10,587
Provision for litigation	45(i)	**206,700**	—	—
Unsecured bank loans	32	**1,816,883**	283,951	152,941
		6,240,045	1,379,099	1,018,680
Net current assets (liabilities)		**569,807**	(117,711)	(74,152)
Total assets less current liabilities		**7,458,666**	1,029,815	739,549

Consolidated Statement Of Financial Position

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Non-current liabilities				
Deferred tax liabilities	34	**47,307**	—	—
Unsecured bank loans	32	**499,345**	61,728	58,824
Government grants	35	**39,646**	7,135	7,493
Amount due to a related company	26(i)	**108,623**	—	—
		694,921	68,863	66,317
Net assets		**6,763,745**	960,952	673,232
Capital and reserves				
Share capital	36	**272,542**	152,977	153,496
Reserves		**6,314,218**	796,402	509,797
Equity attributable to owners of the Company		**6,586,760**	949,379	663,293
Non-controlling interests		**176,985**	11,573	9,939
Total equity		**6,763,745**	960,952	673,232

The consolidated financial statements on pages 30 to 119 were approved and authorised for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Statement Of Financial Position

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	**20**	53
Investments in subsidiaries	39	**9,792,453**	1,465,164
Amount due from a subsidiary	27	**359,640**	—
		10,152,113	1,465,217
Current assets			
Other receivables		**7,472**	8,605
Amounts due from subsidiaries	27	**1,439,563**	1,168,435
Bank balances and cash	29	**240,406**	40,657
Derivative financial instruments	33	**331**	—
		1,687,772	1,217,697
Current liabilities			
Other payables		**60,749**	7,306
Amount due to an immediate holding company	26(iii)	**—**	188,036
Amount due to a subsidiary	27	**541,236**	—
Amount due to a related party	26(i)	**37,673**	—
Derivatives financial instruments	33	**—**	1,321
Unsecured bank loans	32	**638,000**	387,300
		1,277,658	583,963
Net current assets		**410,114**	633,734
Total assets less current liabilities		**10,562,227**	2,098,951
Non-current liabilities			
Unsecured bank loans	32	**353,400**	528,700
Net assets		**10,208,827**	1,570,251
Capital and reserves			
Share capital	36	**272,542**	152,977
Reserves	40	**9,936,285**	1,417,274
Total equity		**10,208,827**	1,570,251

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2012

	Equity attributable to owners of the Company										
	Share capital	**Share premium**	**Other reserve**	**Statutory reserve**	**Capital contribution reserve**	**Convertible bonds**	**Translation reserve**	**Accumulated (losses) profits**	**Total**	**Non-controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 36)	*(note 36)*	*(note d)*	*(note a)*	*(note e)*						
At 1 January 2011 (restated)	153,496	1,116,727	(801,425)	30,771	129,742	—	45,491	(11,509)	663,293	9,939	673,232
Profit for the year	—	—	—	—	—	—	—	355,411	355,411	1,763	357,174
Exchange differences arising on translations	—	—	—	—	—	—	39,666	—	39,666	518	40,184
Total comprehensive income for the year	—	—	—	—	—	—	39,666	355,411	395,077	2,281	397,358
Dividends recognised as distribution *(note 15)*	—	—	—	—	—	—	—	(108,991)	(108,991)	(647)	(109,638)
Share repurchased and cancelled	(519)	—	519	—	—	—	—	—	—	—	—
Transfer to statutory reserve	—	—	—	22,632	—	—	—	(22,632)	—	—	—
At 31 December 2011 and 1 January 2012 (restated)	152,977	1,116,727	(800,906)	53,403	129,742	—	85,157	212,279	949,379	11,573	960,952
Profit for the year	—	—	—	—	—	—	—	2,162,235	2,162,235	6,613	2,168,848
Exchange differences arising on translation	—	—	—	—	—	—	32,520	—	32,520	2,044	34,564
Total comprehensive income for the year	—	—	—	—	—	—	32,520	2,162,235	2,194,755	8,657	2,203,412
Dividends recognised as distribution *(note 15)*	—	—	—	—	—	—	—	(300,400)	(300,400)	(975)	(301,375)
Capital injection *(note b)*	—	—	845,994	—	—	—	—	—	845,994	—	845,994
Imputed interest from amounts due to related parties	—	—	—	—	14,649	—	—	—	14,649	—	14,649
Adjustments arising on group reorganisation *(note c)*	—	—	(530,526)	—	(98,827)	—	—	—	(629,353)	—	(629,353)
Adjustments arising from the reverse acquisition *(note 44)*	119,565	2,152,179	(5,038,291)	—	—	561,041	—	—	(2,205,506)	157,730	(2,047,776)
Reclassification of convertible bonds from liability to equity *(note 37)*	—	—	—	—	—	5,717,242	—	—	5,717,242	—	5,717,242
Transfer to statutory reserve	—	—	—	60,603	—	—	—	(60,603)	—	—	—
At 31 December 2012	272,542	3,268,906	(5,523,729)	114,006	45,564	6,278,283	117,677	2,013,511	6,586,760	176,985	6,763,745

Notes:

(a) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the PRC under the laws and regulations of the PRC.

(b) The amount represents capital injection by Shijiazhuang Pharmaceutical Group Company Limited ("SPG") and Joyful Horizon Limited to Robust Sun Group prior to the Acquisition (as defined in note 2).

(c) As part of the Group Reorganisation of the Robust Sun Group (as defined in note 2) set out in note 3, there is series of acquisitions and disposal of interests in subsidiaries between the group companies and SPG. The net amount payable by the Group to SPG and China Charmaine Pharmaceutical Company Limited ("China Charmaine") amounted to approximately HK$629,353,000.

(d) The balance in other reserve prior to 29 October 2012, the date of the Acquisition (as defined in note 2), represents the difference between the share capital and share premium amounts of the Company and those of the entities comprising the Robust Sun Group. At the date of the Acquisition, HK$5,038,291,000 represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK$3,288,998,000 and the fair value of the consideration paid by the Company of HK$8,327,289,000 in the Acquisition.

(e) The balance in capital contribution reserve represents the deemed contribution by SPG which comprise 1) the difference between the carrying amount of the net assets of entities comprising the Robust Sun Group and the consideration paid to SPG and its subsidiaries during group reorganisation under Robust Sun Group and 2) the imputed interest arising on loan from SPG (see note 26 for details).

Consolidated Statement Of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before tax	**2,300,823**	418,138
Adjustments for:		
Amortisation of intangible assets	**472**	612
Amortisation of prepaid lease payments	**5,050**	3,149
Amortisation of financial guarantee liability	**(18,485)**	(14,908)
Depreciation of property, plant and equipment	**185,795**	64,770
Dividend from equity investment	**—**	(11)
Finance costs	**55,970**	21,705
Fair value changes derivative financial instruments	**(270)**	—
Fair value changes on convertible bonds	**222,739**	—
Gain on disposal of/write off of property, plant and equipment	**(2,385)**	(72)
Gain on bargain purchase	**(1,810,702)**	—
Government grants	**(4,559)**	(5,261)
(Gain) loss on fair value change of investments held for trading	**(37)**	83
Impairment loss on trade receivables	**217**	355
Interest income	**(7,837)**	(8,292)
Imputed interest for amount due to a related party	**4,120**	—
Reversal of impairment loss previously recognised in respective of trade receivables and inventories	**(14)**	(804)
Recognition of fair values of financial guarantee contracts issued	**5,130**	17,676
Share of results of a jointly controlled entity	**3,981**	—
Operating cash flows before movements in working capital	**940,008**	497,140
Increase in inventories	**(345,927)**	(85,177)
Increase in trade and other receivables	**(29,767)**	(85,748)
Increase in bills receivables	**(88,102)**	(70,471)
Decrease (increase) in trade receivables due from related companies	**42,670**	(28,942)
(Decrease) increase in trade and other payables	**(83,711)**	110,618
Increase in bills payables	**144,574**	—
(Decrease) increase in trade payables due to related companies	**(40,840)**	17,921
Increase in trade payable due to a jointly controlled entity	**5,360**	—
Increase in government grant	**115,881**	—
Cash generated from operations	**660,146**	355,341
Income tax paid	**(106,056)**	(48,274)
Interest paid	**(56,012)**	(21,434)
NET CASH FROM OPERATING ACTIVITIES	**498,078**	285,633

Consolidated Statement Of Cash Flows

For the year ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000 (restated)
INVESTING ACTIVITIES			
Advances to related parties		**(232,505)**	(31,549)
Purchase of property, plant and equipment		**(193,831)**	(292,359)
(Release) placement of construction retention deposits		**(10,373)**	6,037
Purchase of intangible assets		**(7,315)**	(1,665)
Advances to a jointly controlled entity		**(6,377)**	—
Placement of restricted bank deposits		**(5,235)**	(23,665)
Prepaid lease payments paid		**—**	(30,237)
Dividends received from unlisted investments		**—**	11
Repayment of advances to related companies		**—**	23,581
Acquisition of subsidiaries	44	**701,161**	—
Interest received		**7,837**	8,292
Proceeds on disposal of property, plant and equipment		**4,755**	697
Withdrawal of restricted bank deposits		**3,628**	92,165
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**261,745**	(248,692)
FINANCING ACTIVITIES			
Repayment of bank loans		**(536,384)**	(313,253)
Dividend paid		**(408,296)**	(46,959)
Dividend paid to non-controlling interests		**(975)**	(647)
Repayment of advances from related companies		**—**	(60,901)
Proceed from capital injection		**845,994**	—
New bank loans raised		**459,259**	433,735
Advances from related companies		**17,146**	87,917
NET CASH FROM FINANCING ACTIVITIES		**376,744**	99,892
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,136,567**	136,833
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**310,423**	172,895
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**2,987**	695
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,449,977**	310,423

Notes To The Consolidated Financial Statements

For the year ended 31 December 2012

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Before the Company acquired Robust Sun Group (as defined in note 2 below), Massive Giant Group Limited ("Massive Giant"), a limited liability company incorporated in the British Virgin Islands (the "BVI") held 51.22% of the issued share capital of the Company. By virtue of an agreement, Legend Holdings Limited ("Legend"), an investment holding company established in the People's Republic of China (the "PRC") which indirectly held 34.48% of issued share capital of Hony Capital Fund III, L.P. ("Hony Capital"), a Cayman Islands exempted limited partnership, was entitled to exercise or control the exercise of the voting rights relating to the shares held by Massive Giant in the Company. Therefore, Legend was regarded as the parent and ultimate holding company of the Company as at 31 December 2011 and as at the date of acquisition of Robust Sun Group, being 29 October 2012. After the completion of the acquisition of Robust Sun Group on 29 October 2012, and before the exercise of any convertible bonds, Joyful Horizon Limited, a company incorporated in the BVI and subsidiary of Hony Capital, directly held 43.87% of the enlarged issued share capital of the Company. Accordingly, Legend ceased to be the parent and ultimate holding company of the Company.

Pursuant to a special resolution passed during the extraordinary general meeting of the Company on 21 February 2013, the English name of the Company was changed from China Pharmaceutical Group Limited to CSPC Pharmaceutical Group Limited and the Chinese name of the Company was changed from 中國製藥集團有限公司 to 石藥集團有限公司 with effective from 8 March 2013.

The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The functional currency of the Company is Renminbi ("RMB"), which is also the functional currency of operating subsidiaries of the Group. The consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

On 17 June 2012, the Company entered into a sale and purchase agreement with Joyful Horizon Limited (the "Seller"). The seller and Massive Giant are wholly owned subsidiaries of Massive Top Limited, a subsidiary of Hony Capital. Pursuant to the sale and purchase agreement, the Company conditionally agreed to acquire, and the Seller conditionally agreed to sell, 100% of the total issued share capital of Robust Sun Holdings Limited ("Robust Sun"), for a maximum consideration of HK$8,980,000,000 (the "Acquisition"). The consideration consisted of (i) HK$2,271,744,570.30 by way of allotment and issue of the 1,195,655,037 new shares at an issue price of HK$1.9 per share and (ii) HK$6,708,255,430.70 by way of issue of convertible bonds ("Convertible Bonds").

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Robust Sun and its subsidiaries (the "Robust Sun Group") is principally engaged in the manufacture and sale of pharmaceutical products.

Upon completion of the Acquisition on 29 October 2012, the Seller received shares representing 43.87% of the enlarged share capital of the Company and Convertible Bonds of the Company which will result in the Seller holding a total of 73.83% (assuming issuance of maximum number of conversion shares) of enlarged issued share capital of the Company. Further, the Robust Sun Group's relative size (measured in terms of profit of the Robust Sun Group and the Company and its subsidiaries immediately prior to the Acquisition (the "CPG Group") for the year ended 31 December 2011 and valuation of the two groups) is significantly greater than those of the CPG Group immediately prior to the Acquisition. Under Hong Kong Financial Reporting Standard ("HKFRS") 3, "Business Combinations", the Acquisition is accounted for as a reverse acquisition. For accounting purpose, the Robust Sun Group is the accounting acquirer and the Company and its subsidiaries (the accounting acquiree) are deemed to have been acquired by the Robust Sun Group.

The consolidated financial statements have been prepared as a continuation of the Robust Sun Group. Comparative information presented in the consolidated financial statements in respect of the year ended 31 December 2011 have been restated to present those of the Robust Sun Group rather than those of the CPG Group.

In applying the purchase method of accounting to effect a "reverse acquisition", a bargain purchase gain of approximately HK$1,810,702,000 arose on the acquisition of the CPG Group by the Robust Sun Group, which is measured as the excess of the fair value of the identifiable assets, liabilities and contingent liabilities of the CPG Group over deemed cost of the business combination ("deemed consideration") as of the acquisition date.

Details of the deemed consideration of the reverse acquisition and the fair values of identifiable assets and liabilities of the CPG Group under the reverse acquisition are set out in note 44.

3. GROUP REORGANISATION OF ROBUST SUN GROUP PRIOR TO THE ACQUISITION

As at 1 January 2011, SPG, a company established in the PRC, was wholly owned by Massive Top and its ultimate holding company was Hony Capital. SPG directly owned interest of 98.69% in CSPC XNW Pharmaceutical Joint Stock Co., Ltd. ("XNW") and 100% interest in CSPC Ouyi Pharmaceutical Co., Ltd. ("OYY"). OYY further owned interest of 100% in CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd. ("I&E") and Shiyao Ouyi International Pharmaceutical Co., Ltd. ("OIP"), 55% in CSPC Huasheng Co., Ltd. ("Huasheng") and 75% interest in CSPC NBP Pharmaceutical Co., Ltd. ("NBP").

China Charmaine, a wholly owned subsidiary of SPG, owned the remaining interest of 25% in NBP.

3. GROUP REORGANISATION OF ROBUST SUN GROUP PRIOR TO THE ACQUISITION *(continued)*

In January 2012, Dragon Merit Holdings Limited ("Dragon Merit") was incorporated in Hong Kong as an investment holding company and beneficially owned by Massive Top. Further reorganisation took place during April and May 2012 which involved (i) transfer of 75% equity interests in NBP from OYY to China Charmaine, as a result of which NBP became a wholly-owned subsidiary of China Charmaine; (ii) transfer of 100% equity interest in NBP to Dragon Merit from China Charmaine, as a result of which NBP became a wholly-owned subsidiary of Dragon Merit; (iii) transfer of 100% equity interest in OYY from SPG to NBP, as a result of which OYY became a wholly owned subsidiary of NBP; and (iv) transfer of 98.69% shares of XNW from SPG to NBP, as a result of which XNW became a non-wholly owned subsidiary of NBP.

On 23 May 2012, Robust Sun was incorporated as an investment holding company and its intermediate holding company is Massive Top. Shares of Dragon Merit were exchanged, on a one to one basis, for the shares of Robust Sun on 31 May 2012. As a result, Dragon Merit became wholly owned subsidiary of Robust Sun and there was no change in ultimate control or ultimate ownership interest of the entities comprising Robust Sun Group as a result of this transaction.

The Robust Sun Group comprising Robust Sun and its subsidiaries resulting from the group reorganisation described above (the "Group Reorganisation") is regarded as a continuing entity.

The consolidated financial statements of the Robust Sun Group have been prepared on the basis as if the Robust Sun had always been the holding company of the Robust Sun Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by HKICPA. The consolidated statement of comprehensive income, consolidated statement changes in equity and consolidated statement of cash flow of the Robust Sun Group have been prepared as if the group structure immediately after the Group Reorganisation came into effect had been in existence since 1 January 2011, or since their respective dates of incorporation or establishment, where is a shorter period.

Details of the Group Reorganisation are set out in note 1 to section A of Accountants' Report of the Robust Sun Group included in Appendix II to the Company's circular dated 27 September 2012.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs 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[3]
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[2]
HKFRS 9	Financial Instruments[3]
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]
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 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
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 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

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

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments *(continued)*

Key requirements of HKFRS 9 are described as follows:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

  HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

  Based on the Group's financial assets and financial liabilities as at 31 December 2012, the application of HKFRS 9 will affect the measurement and classification of the Group's available-for-sale investments, but is not likely to affect the Group's other financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures *(continued)*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) - Int 13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. Under HKFRS 11, the jointly controlled entity of the Group will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement.

The directors anticipate that these five standards will have no other significant impact on the amount reported in the Group's consolidated financial statements except as described above.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income *(continued)*

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

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Acquisitions of businesses which are not combination of entities under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

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

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

Merger accounting for business combination involving entities under common control

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses.

Jointly controlled entity

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly controlled entity *(continued)*

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

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Revenue recognition

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

Revenue from the sale of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Service income is recognised when services are provided.

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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

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

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

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.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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

Retirement benefit costs

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest 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.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally generated intangible assets - Research and development expenditure

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

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

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

The amount initially recognised for an 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 (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements 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 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 recognition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading 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 excludes any dividend or interest earned on the financial assets and is included in other income/other expenses in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, trade receivables due from related companies, amount due from related companies, amount due from a jointly controlled entity, amounts due from subsidiaries, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

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

Dividends on Available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

For 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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 other receivables, bills receivables, trade receivables due from related companies, trade receivables due from a connected company, amounts due from related companies and amount due from a jointly controlled entity, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables, bills receivables, trade receivables due from related companies, trade receivables due from a connected company, amounts due from related companies and amount due from a jointly controlled entity are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis. Other than those financial liability classified as at fair value through profit or loss ("FVTPL"), of which the interest expenses in included in net gains or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at fair value through profit or loss (continued)

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified 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.

Other financial liabilities

Other financial liabilities, (including trade and other payables, bills payables, trade payables due to related companies, trade payables due to a jointly controlled entity, dividend payable, amount due to an immediate holding company, amounts due to related companies, amount due to a subsidiary and unsecured bank loans) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Provisions

Provision are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation (if appropriate) recognised in accordance with HKAS18 *Revenue*.

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policy

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policy *(continued)*

Acquisition method of accounting for a business combination

During the year, the Company entered into sale and purchase agreement to acquire 100% equity interest in Robust Sun with details disclosed in note 2. The management consider facts and circumstances in identifying the accounting acquirer in a business combination effected by exchanging equity interests. Following the detailed analysis performed, it is determined that the Seller received shares representing 43.87% of the enlarged share capital of the Company and Convertible Bonds of the Company which will result in the Seller holding a total of 73.83% (assuming issuance of maximum number of conversion shares) of enlarged issued share capital of the Company and the Robust Sun Group's relative size (measured in terms of profit of the Robust Sun Group and CPG Group for the year ended 31 December 2011 and valuation) of the two groups is significantly greater than those of the Group immediately prior to the Acquisition. As a result, it is determined that the Robust Sun Group, even though it is acquired by the Company under the Acquisition, is regarded as the acquirer when applying the acquisition method of accounting and that the Acquisition is accounted for as a reverse acquisition in accordance with HKFRS 3 "*Business Combination*".

Key sources of estimation uncertainty

The following are the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2012 was approximately HK$102,716,000 (2011: HK$101,448,000).

Estimated impairment of trade receivables from a third party

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amounts of the Group's trade receivable from third parties were approximately HK$1,855,516,000 (2011: HK$402,204,000), net of allowance of or doubtful debts of approximately HK$1,361,000 (2011:HK$1,141,000).

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Fair value of derivatives and convertible bonds

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of derivatives includes some assumptions not supported by observable market prices or rates. The carrying amount of the financial derivatives instruments as at 31 December 2012 is approximately HK$623,000 (2011: nil) and the carrying amount of the Convertible Bonds classified as at financial liabilities at fair value through profit or loss as at 31 December 2012 is approximately HK$577,214,000 (2011: nil). Details of the assumptions used are disclosed in notes 33 and 37. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

Useful lives and impairment assessment of property, plant, and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimation is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2012, the carrying amounts of property, plant and equipment were approximately HK$6,134,372,000 (2011: HK$909,376,000). Details of the movement for property, plant and equipment are disclosed in note 17.

Write off of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews the aging of the inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down inventories in that year. As of 31 December 2012, the carrying amounts of the inventories were approximately, net of provision for inventories of approximately HK$2,022,406,000 (2011: HK$304,490,000).

Provision for litigations

The estimates for provision for litigation are based upon latest available information and advice of legal counsel and are regularly reviewed by management. Any updates in the legal proceedings may impact the carrying amount of the present obligation.

As at December 31, 2012, the provision for litigations is approximately HK$206,700,000 (2011: nil). Details are set out in note 45(i).

7. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 32, amounts due to related companies and amount due to an immediate holding company in note 26 and Convertible Bonds in note 37, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

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

8. FINANCIAL INSTRUMENTS

8a. Categories of financial instruments

	The Group			The Company	
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)	(restated)		
Financial assets					
FVTPL - derivative financial instrument	**623**	—	—	**1,782,725**	—
Held for trading investments	**527**	490	573	**—**	—
Loans and receivables (including cash and cash equivalents)	**4,321,613**	926,690	648,022	**—**	1,210,679
Available-for-sale investments	**1,705**	—	—	**—**	—
Financial liabilities					
FVTPL - derivative financial instrument	**—**	—	—	**—**	1,321
Amortised cost	**6,128,148**	1,324,136	985,340	**1,570,309**	1,104,036
Financial guarantee contracts	**—**	13,355	10,587	**—**	—

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include available-for-sale investments, trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, amount due from a jointly controlled entity, amounts due from subsidiaries, held for trading investments, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, trade payables due to related companies, and a jointly controlled entity dividend payable, amount due to an immediate holding company, amounts due to related companies, unsecured bank loans, derivative financial instruments and financial guarantee contracts. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (represented by currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) *Currency risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollars ("USD"), and bank balances and cash denominated in USD and HK$, and the Company has raised HK$ bank loans and USD bank loans, which expose the Group and the Company to foreign currency risk.

The Group and the Company currently do not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by the management are as follows:

	The Group				The Company			
	Liabilities		Assets		Liabilities		Assets	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**538,307**	—	**—**	754	**1,570,308**	1,104,036	**—**	41,770
USD	**—**	—	**426,573**	145,434	**—**	1,321	**148,764**	422

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group and the Company are mainly exposed to HK$ and USD.

The following tables detail the sensitivity of the Group and the Company to a 5% (2010: 5%) increase and decrease in RMB against HK$ and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	The Group				The Company			
	HK$ Impact (i)		USD Impact (ii)		HK$ Impact (i)		USD Impact (ii)	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**(21,936)**	32	**17,383**	6,181	**(61,709)**	44,349(i)	**6,211**	38(ii)

(i) This is mainly attributable to the exposure outstanding on HK$ bank balances and bank loans at year end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, receivables, amount due to a related company and bank loans at year end.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 32 for details of these loans), which are raised from the banks in the PRC and Hong Kong.

The Group and the Company is exposed to cash flow interest rate risk primarily in relation to the floating-rate bank borrowings (see note 32 for details of these borrowings). It is the policy of the Group and the Company to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances also expose the Group and the Company to cash flow interest rate risk due to the fluctuation of the prevailing interest rates. The directors of the Company consider the Group's exposure is not significant as the bank deposit interest rates have no material fluctuation during the period.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR") and benchmark interest rate of the PRC ("Benchmark Rate") arising from the Group's HK$ loans, USD loans raised by the Company and RMB loans raised by certain subsidiaries of the Company, respectively.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2012 and 2011, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's post-tax profit would decrease/increase by approximately HK$8,153,000 (2011: HK$577,000) and HK$3,722,000 (2011: HK$3,824,000), respectively.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in held for trading listed equity investments (note 28). The directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

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

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group's geographical concentration of credit risk on trade receivables, bills receivables, trade receivables due from related companies, amounts due from related companies, amount due from a jointly controlled entity, restricted bank deposits and bank balances and cash by geographical location is mainly in the PRC. The Group and the Company has no other significant concentration of credit risk with exposure spread over a number of counterparties.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2012, the Group have available unutilised bank loan facilities HK$754,000,000 (2011: HK$111,111,000). Details of which are set out in note 32.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Group

As at 31 December 2012

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	1,571,463	216,100	456,710	—	2,244,273	2,244,273
Bills payables	—	225,124	193,077	312,125		730,326	730,326
Trade payables due to related companies	—	1,138	4,222	—	—	5,360	5,360
Trade payables due to jointly controlled entity	—	—	544	—	—	544	544
Amounts due to related companies	—	722,794	—	—	108,623	831,417	831,417
Bank loans							
— floating-rate	3.93	37,696	245,772	1,295,434	521,298	2,100,200	2,000,728
— fixed rate	4.40	—	52,870	263,473	—	316,343	315,500
		2,558,215	712,585	2,327,742	629,921	6,228,463	6,128,148

As at 31 December 2011 (restated)

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
Non-derivative financial liabilities							
Trade and other payables	—	389,931	57,785	—	—	447,716	447,716
Bills payables	—	—	13,951	—	—	13,951	13,951
Trade payables due to related companies	—	41,384	—	—	—	41,384	41,384
Amounts due to related companies	—	360,633	292	—	—	360,925	360,925
Dividend payables	—	114,481	—	—	—	114,481	114,481
Bank loans							
— floating-rate	5.99	—	—	76,848	67,359	144,207	135,802
— fixed rate	6.60	—	—	218,532	—	218,532	209,877
Financial guarantee contracts	—	24,691	49,383	922,577	237,917	1,234,568	13,355
		931,120	121,411	1,217,957	305,276	2,575,764	1,337,491

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The Company

As at 31 December 2012

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
Non-derivative financial liabilities							
Amount due to a subsidiary	—	541,236	—	—	—	541,236	541,236
Amount due to related party	—	37,673	—	—	—	37,673	37,673
Unsecured bank loans — floating-rate	2.65	43,114	160,138	380,986	365,986	950,224	913,400
Unsecured bank loans — fixed-rate	1.00	—	—	78,780	—	78,780	78,000
		622,023	160,138	459,766	365,986	1,607,913	1,570,309

As at 31 December 2011

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
Non-derivative financial liabilities							
Amount due to an immediate holding company	—	188,036	—	—	—	188,036	188,036
Unsecured bank loans — floating-rate	2.42	63,498	48,136	306,545	545,638	963,817	916,000
		251,534	48,136	306,545	545,638	1,151,853	1,104,036
Derivative — net settlement							
Interest rate and foreign currency swaps contracts	—	—	—	1,321	—	1,321	1,321

8. FINANCIAL INSTRUMENTS *(continued)*

8b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

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

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.

8c. Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

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

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

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. The fair values of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

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

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

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

8. FINANCIAL INSTRUMENTS *(continued)*

8c. Fair value *(continued)*

	Level 1 *HK$'000*	Level 2 *HK$'000*	Total *HK$'000*
2012			
Financial assets at FVTPL			
Derivative financial liabilities	**—**	**623**	**623**
Non-derivative financial assets held for trading	**527**	**—**	**527**
Total	527	623	1,150
2011			
Financial assets at FVTPL			
Non-derivative financial assets held for trading	490	—	490

There were no transfers between Level 1 and 2 in both years.

9. REVENUE AND SEGMENT INFORMATION

	2012 ***HK$'000***	2011 *HK$'000* (restated)
Sale of goods	**4,146,444**	2,407,445

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, board of directors, in order to allocate resources to the segments and to assess their performance.

Information reported to the directors are based upon which the Group is organised.

The Group's reportable and operating segments for financial reporting purposes are as follows:

Robust Sun Group

(a) NBP - Innovative drugs (including NBP series and other)

(b) OYY and its subsidiaries (the "OYY Group") — Innovative Drugs and Antibiotics (including Oulaining series, Xuanning series and other)

(c) XNW - Caffeine and other

9. REVENUE AND SEGMENT INFORMATION *(continued)*

CPG Group

(d) Vitamin C

(e) Antibiotics

(f) Common Generic Drugs

All reportable segments are engaged in the manufacture and sales of pharmaceutical products.

Segment revenues and results

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

For the year ended 31 December 2012:

	Robust Sun Group			CPG Group					
	NBP	OYY Group	XNW	Vitamin C	Antibiotics	Common Generic Drugs	Total	Segments Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE									
External sales	708,449	1,709,839	692,965	167,308	439,753	428,130	4,146,444	—	4,146,444
Inter-segment sales	—	60,510	5,539	247	141,916	—	208,212	(208,212)	—
TOTAL REVENUE	708,449	1,770,349	698,504	167,555	581,669	428,130	4,354,656	(208,212)	4,146,444
Inter-segment sales are charged at prevailing market rates.									
SEGMENT PROFIT (LOSS)	321,216	376,019	90,590	(24,140)	(22,542)	40,574			781,717
Unallocated income									27,164
Unallocated expenses									(92,040)
Gain on bargain purchase									1,810,702
Change in fair value of convertible bonds									(222,739)
Share of result of a jointly controlled entity									(3,981)
PROFIT BEFORE TAX									2,300,823

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2011: (restated)

	Robust Sun Group					
	NBP	OYY Group	XNW	Segments total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE						
External sales	398,249	1,375,391	633,805	2,407,445	—	2,407,445
Inter-segment sales	514	68	3,171	3,753	(3,753)	—
TOTAL REVENUE	398,763	1,375,459	636,976	2,411,198	(3,753)	2,407,445

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT AND PROFIT BEFORE TAX	144,438	201,918	71,782			418,138

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 5. Segment profit represents the profit earned by each segment without allocation of interest income, finance costs, central administrative expenses, share of result of a jointly controlled entity, changes in fair value of convertible bonds and gain on bargain purchase. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Segment assets	**31.12.2012**	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Robust Sun Group			
NBP	**549,761**	434,953	278,095
OYY Group	**1,829,214**	1,473,377	1,083,166
XNW	**586,557**	499,091	391,260
CPG Group			
Vitamin C *(note)*	**2,165,568**	—	—
Antibiotics *(note)*	**5,847,363**	—	—
Common Generic Drugs *(note)*	**2,527,924**	—	—
Total segment assets	**13,506,387**	2,407,421	1,752,521
Unallocated	**362,051**	1,493	5,708
Fair value adjustments *(note)*	**(169,727)**	—	—
Consolidated total assets	**13,698,711**	2,408,914	1,758,229

Segment liabilities	**31.12.2012**	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Robust Sun Group			
NBP	**(669,608)**	(182,210)	(156,139)
OYY Group	**(806,599)**	(1,011,296)	(760,503)
XNW	**(154,997)**	(254,456)	(168,355)
CPG Group			
Vitamin C *(note)*	**(666,641)**	—	—
Antibiotics *(note)*	**(1,687,333)**	—	—
Common Generic Drugs *(note)*	**(537,350)**	—	—
Total segment liabilities	**(4,522,528)**	(1,447,962)	(1,084,997)
Unallocated	**(2,393,013)**	—	—
Fair value adjustments *(note)*	**(19,425)**	—	—
Consolidated total liabilities	**(6,934,966)**	(1,447,962)	(1,084,997)

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to operating segments other than interest in a jointly controlled entity, deferred tax assets and liabilities and corporate assets of the investment holding companies. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than deferred tax liabilities, bank borrowings and corporate liabilities of the investment holding companies. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Note: Segment assets and segment liabilities are based on the carrying amounts reported in the group entities' financial statements before the fair value adjustments identified upon the Acquisition as set out in note 44.

Other segment information

For the year ended 31 December 2012:

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

	NBP	OYY Group	XNW	Vitamin C	Antibiotics	Common Generic Drugs	Sub-total	Adjustments	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition to property, plant and equipment	20,793	255,587	33,762	20,188	53,069	27,334	410,733	–	–	410,733
Addition to intangible assets	–	–	–	–	3,058	4,257	7,315	–	–	7,315
Depreciation and amortisation	18,421	9,692	19,018	27,941	69,338	46,629	191,039	(3,768)	4,046	191,317
Allowance for trade receivables	–	203	–	–	–	–	203	–	–	203
Research and development expenditure	5,926	56,541	4,255	3,313	6,185	1,739	77,959	–	–	77,959
Gain on fair value change of investments held for trading	–	(37)	–	–	–	–	(37)	–	–	(37)
(Gain) loss on disposal/write off of property, plant and equipment	(198)	1,399	–	(2,073)	(1,773)	262	(2,385)	–	–	(2,385)

The adjustments represent the fair value adjustments on assets and liabilities identified upon the Acquisition set out in note 44.

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

For the year ended 31 December 2011 (restated):

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

	NBP *HK$'000*	OYY Group *HK$'000*	XNW *HK$'000*	Sub-total *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Addition to property, plant and equipment	21,526	269,714	38,871	330,111	—	330,111
Addition to intangibles assets	1,665	—	—	1,665	—	1,665
Addition to prepaid lease payment	—	59,649	—	59,649	—	59,649
Depreciation and amortisation	18,508	29,333	20,690	68,531	—	68,531
Reversal of allowance for inventories	—	—	(492)	(492)	—	(492)
Research and development expenditure	7,425	15,711	2,853	25,989	—	25,989
Loss on fair value change of investments held for trading	—	83	—	83	—	83
Dividend income from equity investment	—	(11)	—	(11)	—	(11)
Loss (gain) on disposal/ write off of property, plant and equipment	1	59	(132)	(72)	—	(72)

Geographical information

The following is an analysis of the Group's revenue for the year by geographical market based on geographical location of customers:

	2012 ***HK$'000***	2011 *HK$'000* (restated)
The PRC (country of domicile)	**2,961,753**	1,657,899
Other Asian regions	**381,071**	188,848
Americas *(Note)*	**450,461**	223,949
Europe	**262,753**	326,748
Others	**90,406**	10,001
	4,146,444	2,407,445

Note: The majority of revenue came from sales of pharmaceutical products in USA.

9. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information *(continued)*

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

Product information

The following is an analysis of the Group's revenue by product lines for the years:

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Bulk drugs		
Antibiotics	**616,740**	299,419
Vitamin C	**167,308**	—
Caffeine	**514,760**	379,468
Others	**287,523**	320,953
	1,586,331	999,840
Finished drugs		
"NBP" product series	**676,792**	364,502
"Oulaining" product series	**449,203**	148,434
"Xuanning" product series	**164,960**	123,173
"Weihong" product series	**123,722**	98,545
"Ouyi" product series	**73,652**	65,826
Others	**1,071,784**	607,125
	2,560,113	1,407,605
	4,146,444	2,407,445

None of the Group's customers contributed over 10% of the total revenue of the Group in both years.

10. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Interest on:		
— bank loans wholly repayable within five years	**55,970**	21,705
— imputed interest arising from loan from SPG *(note 26)*	**4,120**	—
	60,090	21,705

11. PROFIT BEFORE TAX

	2012 HK$'000	2011 HK$'000 (restated)
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 13)*:		
Salaries, wages and other benefits	**304,195**	154,351
Contribution to retirement benefit schemes	**43,766**	21,256
Total staff costs	**347,961**	175,607
Amortisation of intangible assets (included in cost of sales)	**472**	612
Amortisation of prepaid lease payments	**5,050**	3,149
Depreciation of property, plant and equipment	**185,795**	64,770
Total depreciation and amortisation	**191,317**	68,531
Auditor's remuneration *(Note ii)*	**4,100**	2,200
Government grant income *(note 35)*	**(4,559)**	(5,261)
Impairment loss on trade receivables	**203**	43
Reversal on allowance for inventories, net *(Note iii)*	**—**	(492)
Interest income	**(7,837)**	(8,292)
(Gain) loss on fair value change of held for trading investments	**(37)**	83
Gain on disposal of/write off of property, plant and equipment (included in other income)	**(2,385)**	(72)
Net foreign exchange (gains) losses	**(1,525)**	2,133
Rental expenses	**12,364**	7,543
Research and development expenditure recognised as an expense (included in other expenses)	**77,959**	25,989

Notes:

(i) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of comprehensive income for the years ended 31 December 2012 and 2011.

(ii) The auditor's remuneration disclosed above include amounts of approximately HK$3,417,000 (2011: HK$2,200,000) of the CPG Group prior to the Acquisition which are not included in the consolidated statement of comprehensive income for the year ended 31 December 2012 and 2011.

(iii) During the year ended 31 December 2011, there was a reversal of allowance for inventories of approximately of HK$492,000 recognised because of subsequent sales of the relevant inventories.

12. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000 (restated)
The tax charge comprises:		
PRC Enterprise Income Tax		
— current year	**128,319**	56,576
Deferred taxation *(note 34)*	**3,656**	4,388
	131,975	60,964

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profit under Hong Kong Profits Tax.

The basic tax rate of the Company's PRC subsidiaries is 25%, under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation regulation of the EIT law.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Company established before 16 March 2007 is entitled to exemption from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years. The tax relief began in 2008 and ended in 2012.

In addition, certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate to be at a reduced rate of 15% for a period of 3 years up to 2014.

PRC EIT has been relieved by approximately HK$12,105,000 (2011: HK$4,388,000) for the year ended 31 December 2012 as a result of tax losses brought forward from previous years.

12. INCOME TAX EXPENSE *(continued)*

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

	2012	2011
	HK$'000	*HK$'000*
		(restated)
Profit before tax	**2,300,823**	418,138
Tax at the domestic income tax rate of 25%	**575,206**	104,535
Tax effect of income not taxable for tax purpose *(Note)*	**(494,973)**	—
Tax effect of expenses not deductible for tax purpose	**98,281**	6,176
Tax effect of share of results of a jointly controlled entity	**995**	—
Utilisation of tax losses previously not recognised	**(6,265)**	—
Tax effect of tax losses not recognised	**18,687**	357
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(66,174)**	(50,198)
Others	**(593)**	94
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries	**6,811**	—
Tax charge for the year	**131,975**	60,964

Note: Included in the amount mainly represents the tax effect arising from bargain purchase amounting to approximately HK$452,676,000.

Details of deferred taxation and unused tax losses are set out in note 34.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 16 (2011: 13) directors of the Company were as follows:

2012

	Director and chief executive	Directors															
	Cai Dongchen	Feng Zhenying	Chak Kin Man	Pan Weidong	Zhao John Huan	Wang Shunlong	Wang Huaiyu	Lu Jianmin	Wang Zhenguo	Lee Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Wang Bo	Zhang Fawang	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	—	—	60	60	60	300	66	66	66	150	—	—	1,068
Salaries and other benefits	4,372	286	1,954	286	—	1,151	286	286	286	—	—	—	—	—	—	—	8,907
Contribution to retirement benefit schemes	428	44	187	44	—	8	44	44	44	—	—	—	—	—	—	—	843
Performance related incentive payment	3,195	750	1,250	1,000	—	—	1,000	1,300	500	—	—	—	—	—	—	—	8,995
Total emoluments	8,055	1,140	3,451	1,390	—	1,159	1,390	1,690	890	300	66	66	66	150	—	—	19,813

Note: The emoluments paid or payable to the directors of the Company prior to the Acquisition are not included in consolidated profit or loss of the Group for the year ended 31 December 2012.

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

2011

	Director and chief executive	Directors												
	Zhao Cai Dongchen	Lee Feng Zhenying	Chak Kin Man	Pan Weidong	John Huan	Wang Shunlong	Wang Huaiyu	Lu Jianmin	Ka Sze, Carmelo	Huo Zhenxing	Qi Moujia	Guo Shichang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	—	—	60	60	300	66	66	66	150	1,008
Other emoluments:														
Salaries and other benefits	4,351	605	1,948	605	—	—	605	605	—	—	—	—	—	8,719
Contribution to retirement benefit schemes	422	38	180	38	—	—	38	38	—	—	—	—	—	754
Performance related incentive payment	—	—	500	—	—	—	—	—	—	—	—	—	—	500
Total emoluments	4,833	703	2,688	703	—	—	703	703	300	66	66	66	150	10,981

Note: The emoluments paid or payable to the directors of the Company are not included in the consolidated profit or loss of the Group for the year ended 31 December 2011 as they were incurred by the CPG Group.

No emolument is paid or payable to the directors of Robust Sun during the year ended 31 December 2011.

The performance related incentive payment is determined by the remuneration committee for year ended 31 December 2011 and 2012 having regard to the performance of Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the directors of the company as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments in both years.

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

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the CPG Group and Robust Sun Group for the year ended 31 December 2012 included 4 (2011: 4) directors and the chief executive of the Company, details of their emoluments are set out in note 13 above.

The emoluments of the remaining one individual of the Group are as follows:

	2012 ***HK$'000***	2011 *HK$'000* (restated)
Employees		
— salaries and other benefits	**1,460**	506
— contributions to retirement benefits scheme	**—**	31
— performance related incentive payment	**—**	500
	1,460	1,037

The emoluments of the five highest paid individuals of the CPG Group prior to the Acquisition are not included in the consolidated profit for the year ended 31 December 2012 and consolidated profit for the year ended 31 December 2011.

During the year ended 31 December 2012 and 2011, no emoluments were paid by the CPG Group and Robust Sun Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDEND

During the year ended 31 December 2012 and 2011, the Company did not recognise any dividend as distribution.

The directors recommend the payment of a final dividend of HK10 cents per share in respect of the year ended 31 December 2012 (2011: nil). Subject to approval by the shareholders in the forthcoming annual general meeting, the proposed final dividend will be paid on or around 17 June 2013.

Dividends declared by the Robust Sun Group prior to the Acquisition and during the year ended 31 December 2011 were as follows:

	2012 ***HK$'000***	2011 *HK$'000* (restated)
Dividend recognised as distribution during the year:		
NBP	**6,504**	—
OYY	**220,464**	60,241
XNW	**74,407**	49,397
Less: Dividend paid to non-controlling interest	**(975)**	(647)
	300,400	108,991

Note: The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

16. EARNINGS PER SHARE

The weighted average numbers of ordinary shares for the purpose of calculating basic earnings per share have been retrospectively adjusted for the effects of the recapitalisation that occured in the reverse acquisition as detailed in Note 2 and reflect the weighted average number of shares of the Company deemed to be outstanding for the period from 1 January 2011 to the Acquisition date in the reverse acquisition based on the exchange ratio established in the Acquisition and the Company's weighted average number of ordinary shares after the completion of Acquisition on 29 October 2012 up to 31 December 2012.

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

	2012 ***HK$'000***	2011 *HK$'000* (restated)
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**2,162,235**	355,411
Effect of dilutive potential ordinary shares:		
Change in fair value of Convertible Bonds	**222,739**	—
Earnings for the purpose of diluted earnings per share	**2,384,974**	355,411

	2012 ***'000***	2011 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,463,155**	1,195,655
Effect of dilutive potential ordinary shares:		
Convertible Bonds as if converted	**3,120,119**	3,120,119
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,583,274**	4,315,774

17. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2011 (restated)	280,718	396,440	23,659	—	100,852	801,669
Exchange adjustments	16,398	22,349	1,516	—	11,522	51,785
Additions	795	21,817	3,705	—	303,794	330,111
Transfers	28,403	10,419	38	—	(38,860)	—
Disposals/write-off	—	(821)	(1,114)	—	—	(1,935)
At 31 December 2011 and 1 January 2012 (restated)	**326,314**	**450,204**	**27,804**	**—**	**377,308**	**1,181,630**
Exchange adjustments	**6,560**	**9,107**	**672**	**—**	**1,349**	**17,688**
Additions	**590**	**42,356**	**3,532**	**208**	**364,047**	**410,733**
Acquisition of CPG Group *(note 45)*	**1,887,220**	**2,504,719**	**54,929**	**27,633**	**513,683**	**4,988,184**
Transfers	**254,809**	**451,921**	**28,074**	**—**	**(734,804)**	**—**
Disposals/write-off	**(3,443)**	**(70,004)**	**(4,976)**	**(230)**	**—**	**(78,653)**
At 31 December 2012	**2,472,050**	**3,388,303**	**110,035**	**27,611**	**521,583**	**6,519,582**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011 (restated)	49,154	139,430	4,991	—	—	193,575
Exchange adjustments	4,655	9,981	583	—	—	15,219
Provided for the year	16,722	44,808	3,240	—	—	64,770
Eliminated on disposals/ write-off	—	(241)	(1,069)	—	—	(1,310)
At 31 December 2011 and 1 January 2012 (restated)	**70,531**	**193,978**	**7,745**	**—**	**—**	**272,254**
Exchange adjustments	**1,090**	**2,245**	**109**	**—**	**—**	**3,444**
Provided for the year	**44,060**	**132,583**	**7,350**	**1,802**	**—**	**185,795**
Eliminated on disposals/write-off	**(3,443)**	**(68,122)**	**(4,612)**	**(106)**	**—**	**(76,283)**
At 31 December 2012	**112,238**	**260,684**	**10,592**	**1,696**	**—**	**385,210**
CARRYING VALUES						
At 31 December 2012	**2,359,812**	**3,127,619**	**99,443**	**25,915**	**521,583**	**6,134,372**
At 31 December 2011 (restated)	255,783	256,226	20,059	—	377,308	909,376
At 1 January 2011 (restated)	231,564	257,010	18,668	—	100,852	608,094

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

THE GROUP *(continued)*

At 31 December 2012, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$155,756,000 (2011:nil). In the opinion of the directors, as the buildings are currently in use and generate economic benefits to the Group, there is no impairment of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

THE COMPANY

	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2011	1,581	1,005	2,586
Addition	31	—	31
Disposal	(209)	—	(209)
At 31 December 2011 and 31 December 2012	**1,403**	**1,005**	**2,408**
DEPRECIATION			
At 1 January 2011	1,408	1,005	2,413
Provided for the year	151	—	151
Eliminated on disposal	(209)	—	(209)
At 31 December 2011 and 1 January 2012	**1,350**	**1,005**	**2,355**
Provided for the year	**33**	**—**	**33**
At 31 December 2012	**1,383**	**1,005**	**2,388**
CARRYING VALUES			
At 31 December 2012	**20**	**—**	**20**
At 31 December 2011	53	—	53

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	Over the shorter of the relevant lease of 20 to 25 years, or 3.3% - 5%
Plant and machinery	5% - 10%
Furniture, fixtures and office equipment	20%- 33.33%
Motor vehicles	20%

18. PREPAID LEASE PAYMENTS

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Analysed for reporting purpose as:			
Current asset	**14,750**	3,431	2,104
Non-current asset	**536,340**	129,221	69,134
	551,090	132,652	71,238

Prepaid lease payments comprise medium-term leasehold land in the PRC. The land use rights are amortised on a straight-line basis over lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

19. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2011 (restated)	96,674
Exchange adjustments	4,774
At 31 December 2011 and 1 January 2012 (restated)	**101,448**
Exchange adjustments	**1,268**
At 31 December 2012	**102,716**

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit as follows:

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
OYY Group	**102,716**	101,448	96,674

During the years ended 31 December 2012 and 2011, management of the Group determines that there is no impairment of the above-mentioned cash-generating unit containing the goodwill. The basis of the recoverable amounts of the cash-generating units have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12% per annum, for OYY Group. Cash flows beyond the 5-year period are extrapolated based on past trends of pricing cycle of the Group's pharmaceutical products. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

20. OTHER INTANGIBLE ASSETS

THE GROUP

	Patent *HK$'000*	**Technical know-how** *HK$'000*	**Total** *HK$'000*
COST			
At 1 January 2011 (restated)	292	10,609	10,901
Exchange adjustments	55	348	403
Additions	1,665	—	1,665
At 31 December 2011 and 1 January 2012 (restated)	**2,012**	**10,957**	**12,969**
Exchange adjustments	**25**	**93**	**118**
Acquisition of CPG Group *(note 44)*	**—**	**10,246**	**10,246**
Addition	**—**	**7,315**	**7,315**
At 31 December 2012	**2,037**	**28,611**	**30,648**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2011 (restated)	67	6,155	6,222
Exchange adjustments	5	142	147
Provided for the year	48	564	612
At 31 December 2011 and 1 January 2012 (restated)	**120**	**6,861**	**6,981**
Exchange adjustments	**4**	**45**	**49**
Provided for the year	**202**	**270**	**472**
At 31 December 2012	**326**	**7,176**	**7,502**
CARRYING VALUES			
At 31 December 2012	**1,711**	**21,435**	**23,146**
At 31 December 2011 (restated)	1,892	4,096	5,988
At 1 January 2011 (restated)	225	4,454	4,679

Technical know-how mainly represents techniques and formulae acquired for the development of products and production technology.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Patent	3 to 10 years
Technical know-how	5 to 10 years

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Cost of unlisted investment in a jointly controlled entity *(note 44)*	36,495	—	—
Share of post-acquisition profits, net of dividends received or receivable	(3,981)	—	—
Exchange adjustments	(94)	—	—
	32,420	—	—

At 31 December 2012, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong") which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

The summarised financial information prepared under HKFRSs in respect of the Group's interest in a jointly controlled entity which is accounted for using the equity method is set out below:

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Current assets	79,280	—	—
Non-current assets	101,080	—	—
Current liabilities	(147,940)	—	—
Non-current liabilities	—	—	—
Income recognised in profit or loss	28,726	—	—
Expenses recognised in profit or loss	32,707	—	—

22. AVAILABLE-FOR-SALE INVESTMENTS

Unlisted securities comprised of investment in unlisted equity securities issued by private entity established in the PRC. 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 its fair value cannot be measured reliably.

23. INVENTORIES

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Raw materials	**513,649**	75,774	31,785
Work in progress	**323,233**	47,833	36,616
Finished goods	**1,185,524**	180,883	150,420
	2,022,406	304,490	218,821

24. TRADE AND OTHER RECEIVABLES

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Trade receivables	**1,856,877**	403,345	273,898
Less: allowance for doubtful debts	**(1,361)**	(1,141)	(1,039)
	1,855,516	402,204	272,859
Prepayment for purchase of raw material	**172,951**	21,090	67,184
Utility deposits	**87,837**	4,410	3,701
Other tax recoverable	**147,764**	5,599	4,224
Others	**109,161**	17,207	10,250
	2,373,229	450,510	358,218

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
0 to 90 days	**1,563,311**	391,563	261,476
91 to 180 days	**244,782**	8,371	10,955
181 to 365 days	**44,815**	2,270	428
Over 365 days	**2,608**	—	—
	1,855,516	402,204	272,859

24. TRADE AND OTHER RECEIVABLES *(continued)*

No impairment loss is provided for the trade receivables that are neither past due nor impaired (i.e. aged within 90 days) because these receivables are within the credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$292,205,000 (2011: HK$10,641,000) which are past due (i.e. aged over 90 days) as at the end of the reporting period for which the Group has not provided for impairment loss as the amounts are still considered recoverable and of good credit quality. The Group does not hold any collateral over these balances. The average age of these receivable is 120 days.

Ageing of trade receivables which are past due but not impaired

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
91 to 180 days	**244,782**	8,371	10,955
181 to 365 days	**44,815**	2,270	428
Over 365 days	**2,608**	—	—
	292,205	10,641	11,383

Movements in the allowance for doubtful debts

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Balance at beginning of the year	**1,141**	1,039	962
Impairment loss on trade receivables	**217**	355	41
Impairment losses reversed	**(14)**	(312)	—
Exchange adjustments	**17**	59	36
Balance at end of the year	**1,361**	1,141	1,039

As at 31 December 2012, the Group's trade receivables denominated in USD is approximately HK$527,403,000 (2011: HK$130,846,000).

25. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2011: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

26. RELATED PARTIES DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Apart from other arrangements with related parties disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following transactions. The significant transactions with these companies during the year, and the balances with them at the end of the reporting period, are as follows:

(i) Related companies

The Group

Name of company	**Nature of transactions/balances**	**2012** *HK$'000*	2011 *HK$'000* (restated)
SPG and its subsidiaries *(note 1)*	Purchase of raw materials	**1,578**	1,418
	Sale of finished drugs products	**67,855**	39,316
	Sale of raw materials	**—**	786
	Interest income received	**4,444**	5,853
	Dividend paid	**301,375**	108,991
	Rental expense	**341**	—

	31.12.2012 *HK$'000*	31.12.2011 *HK$'000* (restated)	1.1.2011 *HK$'000* (restated)
Balance due from/to the SPG Group			
— trade receivables			
aged 0-90 days	**51,326**	17,206	7,401
aged 91-180 days	**—**	2,009	31
	51,326	19,215	7,432
— trade payables			
aged 0-90 days	**544**	4,773	513
— other receivables *(note 3)*	**14,388**	—	11
— other payables			
— current *(note 4)*	**716,209**	360,925	333,909
— other payables			
— non current *(note 4)*	**108,623**	—	—
— dividend payable	**6,585**	114,481	50,271

26. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

The Group *(continued)*

Name of company	**Nature of transactions/balances**	**2012 HK$'000**	2011 HK$'000 (restated)
CPG Group *(note 2)*	Purchase of raw materials	**20,011**	24,088
	Sale of finished drugs products	**90**	1,525
	Sale of utility	**—**	987
	Product processing services	**—**	14,511
	Rental income	**—**	397
	Sale of raw materials	**—**	306
	Consumable expenses	**1,500**	1,509
	Purchase of equipment	**—**	549

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Balance due from/to the CPG Group			
— trade receivables			
aged 0-90 days	**—**	24,186	7,037
aged 91-180 days	**—**	10	—
	—	24,196	7,037
— trade payables			
aged 91-180 days	**—**	507	3,609
aged over 180 days	**—**	32,547	16,936
	—	33,054	20,545
— other receivables *(note 3)*	**—**	—	4

26. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

The Group *(continued)*

Name of company	Nature of transactions/balances	2012 HK$'000	2011 HK$'000 (restated)
Huarong , a jointly controlled entity of CPG Group *(note 5)*	Purchase of raw materials	**9,812**	8,685
	Sales of raw materials	**—**	19

		31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
	Balance due from/to Huarong			
	— trade payables aged 0-90 days	**—**	3,557	2,405
	— other receivables *(note 3)*	**—**	31,534	23,551

		2012 HK$'000	2011 HK$'000 (restated)
Guangdong Titan Pharmaceutical Co., Ltd (the "Guandong Titan"), a wholly-owned entity by the non-controlling interest of a subsidiary	Sales of finished goods	**31,644**	70,857

		31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
	Balance due from Guangdong Titan — trade receivables aged 0-90 days	**37,091**	24,128	14,407

26. RELATED PARTIES DISCLOSURES *(continued)*

(i) Related companies *(continued)*

The Group *(continued)*

Name of company	**Nature of transactions/balances**	**31.12.2012** ***HK$'000***	31.12.2011 *HK$'000* (restated)	1.1.2011 *HK$'000* (restated)
Total related parties balances	Balance due from/to			
	— trade receivables	**88,417**	43,411	14,469
	— trade payables	**544**	41,384	23,463
	— other receivables *(note 3)*	**14,388**	31,534	23,566
	— other payables — current *(note 4)*	**716,209**	360,925	333,909
	— other payables — non current *(note 4)*	**108,623**	—	—
	— dividend payables	**6,585**	114,481	50,271

The Company

Name of company	**Nature of transactions/balances**	**2012** ***HK$'000***	2011 *HK$'000*
China Charmaine Pharmaceutical Company Limited, a wholly owned subsidiary of SPG	Balance due from China Charmaine — other payables *(note 3)*	**37,673**	—

As at 31 December 2012, SPG had also given corporate guarantees to banks in the PRC to secure loan facilities to the extent of approximately HK$950,000,000 (2011: HK$333,333,000) granted to the Group. As at 31 December 2012, the extent of utilisation by the Group amounted to approximately HK$950,000,000 (2011: HK$222,222,000).

26. RELATED PARTIES DISCLOSURES *(continued)*

(ii) A Jointly Controlled Entity

The Group

Name of company	Nature of transactions/balances	2012 HK$'000	2011 HK$'000
Huarong, a jointly controlled entity *(note 5)*	Purchase of raw materials	**5,069**	—
	Provision of utility services by the Group	**8,617**	—

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Balance due from/to Huarong			
— trade payables aged 0-90 days	**5,360**	—	—
— other receivables *(note 3)*	**63,919**	—	—

(iii) An Immediate Holding Company

The Company

Name of company	Nature of transactions/balances	2012 HK$'000	2011 HK$'000
Massive Giant	Dividend payable	**—**	188,036

note 1: SPG was an intermediate holding company of Robust Sun Group subsidiaries prior to May 2012 while it became a fellow subsidiary of the Robust Sun Group after the Group Resorganisation as described in note 3 to the consolidated financial statements.

note 2: The Company was a related of Robust Sun Group party in which Hony Capital has equity stake prior to October 2012 while the Company became the holding company of the Robust Sun Group after the Acquisition as described in note 44.

note 3: Amounts are unsecured, non-interest bearing and repayable on demand.

note 4: Amounts are unsecured, non-interest bearing and repayable on demand except that on 31 May 2012, SPG agreed to change the maturity of a balance of RMB97,705,193 (equivalent to approximately HK$104,503,000) to 31 May 2014. Accordingly, the balance is presented as non-current amount due to a related party as at 31 December 2012. Imputed interest is computed using the prevailing market interest rate of 6.56% per annum for comparable long term borrowings on 31 May 2012. The discount at 31 May 2012 amounted to approximately HK$14,649,000 is recorded as a capital contribution in the consolidated statement of changes in equity while the imputed interest of approximately HK$4,120,000 is recorded as finance costs in the consolidated statement of financial position.

note 5: Huarong is a jointly controlled entity of CPG Group prior to October 2012 while it became a jointly controlled entity of the Group after the Acquisition as described in note 44.

27. AMOUNTS DUE FROM/TO SUBSIDIARIES

Except for an amount of approximately HK$359,640,000 due from a subsidiary which are recoverable on January 1, 2014, the remaining amounts are unsecured, interest-free and recoverable (repayable) within twelve months from the end of the reporting period.

28. HELD FOR TRADING INVESTMENTS

Held for trading investments comprise equity securities listed in the PRC.

29. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.67% (2011: 0.01% to 1.67%) per annum.

As at 31 December 2012 and 2011, restricted bank deposits represent deposits required to be placed in banks for securing short term banking facilities and are classified as current assets. The restricted bank deposits will be released upon settlement of relevant short term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	The Group			The Company	
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)	(restated)		
HK$	**117,693**	754	718	**91,585**	40,185
USD	**239,336**	14,568	12,097	**148,433**	422

30. TRADE AND OTHER PAYABLES

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Trade payables	**1,171,731**	142,614	72,668
Customer deposits	**148,740**	23,089	19,022
Other tax payables	**71,602**	16,051	7,051
Construction retention monies received	**6,625**	16,998	10,961
Consultation fee payable	**15,053**	609	686
Interest payable	**2,108**	518	235
Freight and utilities charges payable	**26,599**	7,362	10,755
Construction cost and acquisition of property, plant and equipment payable *(note 41(i))*	**746,757**	167,859	130,107
Government grant *(note 35)*	**167,868**	30,423	21,124
Receipt in advance from customers	**54,598**	41,697	31,330
Staff welfare payable	**216,535**	65,282	57,425
Selling expense payable	**69,924**	11,857	16,691
Others	**19,953**	14,549	11,078
	2,718,093	538,908	389,133

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
0 to 90 days	**763,369**	85,799	71,878
91 to 180 days	**72,837**	56,815	659
More than 180 days	**335,525**	—	131
	1,171,731	142,614	72,668

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

31. BILLS PAYABLES

All bills payables of the Group are aged within 180 days and not yet due at the end of the reporting period.

32. BORROWINGS

	The Group			The Company	
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)	(restated)		
Unsecured bank loans					
— floating-rate HK$ bank loans	**656,000**	—	—	**606,000**	760,000
— floating-rating USD bank loans	**257,400**	—	—	**257,400**	156,000
— floating-rate RMB bank loans	**1,087,328**	135,802	188,235	**50,000**	—
— fixed-rate RMB bank loans	**237,500**	209,877	23,530	**—**	—
— fixed-rate USD bank loans	**78,000**	—	—	**78,000**	—
	2,316,228	345,679	211,765	**991,400**	916,000
The above borrowings are repayable as follows:					
Within one year	**1,816,883**	283,951	152,941	**638,000**	387,300
More than one year, but not more than two years	**378,225**	61,728	—	**232,280**	382,700
More than two years, but not more than five years	**121,120**	—	58,824	**121,120**	146,000
	2,316,228	345,679	211,765	**991,400**	916,000
Less: Amounts due within one year shown under current liabilities	**(1,816,883)**	(283,951)	(152,941)	**(638,000)**	(387,300)
Amounts due after one year	**499,345**	61,728	58,824	**353,400**	528,700

32. BORROWINGS *(continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

	2012	2011 (restated)
Effective interest rate:		
Floating-rate HK$ bank loans	**1.89% to 5.53% per annum**	-
Floating-rate USD bank loans	**2.74% to 3.23% per annum**	-
Fixed-rate USD bank loans	**1% per annum**	-
Floating-rate RMB bank loans	**2.6% to 6.56% per annum**	4.78% to 7.70% per annum
Fixed-rate RMB bank loans	**3.25% to 5.24% per annum**	4.78% to 6.63% per annum

The floating-rate of HK$, RMB and USD bank loans are subject to interest at HIBOR plus a spread, discounted PRC Benchmark Rate plus a spread and LIBOR plus a spread, respectively.

The borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	The Group			**The Company**	
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000* (restated)	*HK$'000* (restated)	***HK$'000***	*HK$'000*
HK$	**335,400**	—	—	**335,400**	156,000
USD	**656,000**	—	—	**606,000**	760,000

At the end of the reporting period, the Group has the following undrawn loan facilities:

	The Group		**The Company**	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000*
Floating-rate HK$ bank loans	**104,000**	—	**104,000**	90,000
Floating-rate USD bank loans	**—**	—	**—**	101,400
Floating-rate RMB bank loans	**612,500**	111,111	**—**	50,000
Fixed-rate RMB bank loans	**37,500**	—	**—**	—

As at 31 December 2012 and 2011, SPG and its subsidiaries gave guarantee of approximately HK$950,000,000 to secure borrowings of the Group.

33. DERIVATIVES FINANCIAL INSTRUMENTS

	The Group			The Company	
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)	(restated)		
Other derivatives					
(not under hedge accounting):					
Foreign currency derivatives	**323**	—	—	**31**	(932)
Structured forward contract	**300**	—	—	**300**	(230)
Interest rate swap	**—**	—	—	**—**	(159)
	623	—	—	**331**	(1,321)

Major terms of the derivatives financial instruments are as follows:

(i) Forward currency derivatives

As at 31 December 2012

The Group

Notional amount	**Maturity**	**Exchange rates**
Buy USD10M, Sell RMB	March 18, 2013	RMB6.315: USD1
Buy USD10M, Sell RMB	September 10, 2013	RMB6.338: USD1
Buy USD10M, Sell RMB	March 10, 2014	RMB6.3385: USD1
Sell USD10M, Buy RMB	March 13, 2013	RMB6.3100:USD1
Sell USD10M, Buy RMB	September 13, 2013	RMB6.3330:USD1
Sell USD10M, Buy RMB	March 13, 2014	RMB6.3335:USD1

The Company

Notional amount	**Maturity**	**Exchange rates**
Sell USD10M, Buy RMB	March 13, 2013	RMB6.3100:USD1
Sell USD10M, Buy RMB	September 13, 2013	RMB6.3330:USD1
Sell USD10M, Buy RMB	March 13, 2014	RMB6.3335:USD1

As at 31 December 2011

The Company

The Company has entered into a forward contract to buy HK$/sell RMB at a fixed rate of RMB0.8263/HK$. The notional amount of the contract is RMB99,156,000 and the maturity date is 13 June 2012.

33. DERIVATIVES FINANCIAL INSTRUMENTS *(continued)*

(ii) Structured forward contract

As at 31 December 2012

The Group and the Company

The Group and the Company has entered into a net-settled US$/RMB structured forward contract which gives the Group the opportunities to buy RMB at a rate better than the prevailing market spot rate if the market exchange rate is at or below RMB6.44/US$ on the fixing date. However, the Group and the Company is obliged to sell US$/buy RMB at a fixed rate of RMB6.44/US$ if the market exchange rate is above RMB6.46/US$ for US$6 million per month for a period of 12 months. As at 31 December 2012, the remaining tenor of the contract was 14 months.

As at 31 December 2011

The Group and the Company

The Group and the Company has entered into a net-settled US$/RMB structured forward contract which gives the Group the opportunities to buy RMB at a rate better than the prevailing market spot rate if the market exchange rate is at or below RMB6.44/US$ on the fixing date. However, the Group is obliged to sell US$/buy RMB at a fixed rate of RMB6.44/US$ if the market exchange rate is above RMB6.46/US$ for US$5 million per month for a period of 12 months. As at 31 December 2011, the remaining tenor of the contract was 10 months.

(iii) Interest rate swap

As at 31 December 2011

The Group and the Company

Notional amount	Maturity	Interest rates
HK$120,000,000	June 13, 2012	From HIBIOR to 0.58%

The above derivatives are measured at fair value at the end of the reporting period. Their fair values are determined based on the quoted prices by counterparty financial institutions for equivalent instrument at the end of the reporting period.

34. DEFERRED TAXATION

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

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Deferred tax asset	**58,160**	1,493	5,708
Deferred tax liability	**(47,307)**	—	—
	10,853	1,493	5,708

34. DEFERRED TAXATION *(continued)*

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year are as follows:

	Inventories	Properties, plant and equipments	Prepaid lease payments	Other intangible assets	Tax loss	Undistributed profit of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011 (restated)	—	—	—	—	5,708	—	5,708
Charge to profit or loss	—	—	—	—	(4,388)	—	(4,388)
Exchange adjustments	—	—	—	—	173	—	173
At 31 December 2011 and 1 January 2012 (restated)	**—**	**—**	**—**	**—**	**1,493**	**—**	**1,493**
Credit (charge) to profit or loss	**5,426**	**512**	**(22)**	**(1,300)**	**(1,460)**	**(6,812)**	**(3,656)**
Acquisitions of CPG Group *(note 45)*	**22,134**	**(25,859)**	**(885)**	**38,696**	**—**	**(20,936)**	**13,150**
Exchange adjustments	**—**	**—**	**—**	**—**	**—**	**(134)**	**(134)**
At 31 December 2012	**27,560**	**(25,347)**	**(907)**	**37,396**	**33**	**(27,882)**	**(10,853)**

As at 31 December 2012, the Group has unused tax losses of approximately HK$46,284,000 (2011: HK$5,899,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$133,000 (2011: HK$5,899,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$46,151,000 (2011: nil) due to the unpredictability of future profit streams.

The unused tax losses will be expired as follows:

	2012	2011
	HK$'000	*HK$'000* (restated)
2014	**—**	4,310
2015	**133**	1,589
2016	**46,151**	—
	46,284	5,899

34. DEFERRED TAXATION *(continued)*

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable. During the year ended 31 December 2012, deferred taxation amounting to approximately HK$27,881,000 has been provided for in the consolidated financial statements in respect of temporary differences attributable to the whole amount of undistributed accumulated profits of the PRC subsidiaries. No deferred taxation has been provided for the undistributed profits as at 31 December 2011 as the PRC subsidiaries were held by entities which were PRC tax residents.

There was no other significant deferred taxation for the year or at the end of the reporting period.

35. GOVERNMENT GRANTS

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Current (included in other payables in note 30)			
— Acquisition of property, plant and equipment *(note a)*	**740**	731	696
— Other subsidies *(note b)*	**167,128**	29,692	20,428
	167,868	30,423	21,124
Non-current			
— Acquisition of property, plant and equipment *(note a)*	**39,646**	7,135	7,493
	207,514	37,558	28,617

Notes:

a. Government grants include cash subsidies received from PRC government by OYY which was specific for the purchase of plant and machineries. The Group has complied with the conditions attaching to the grants as at the end of the reporting periods and transferred to profit or loss over the useful lives of the related assets. During the year ended 31 December 2012, the Group recognised income of approximately HK$731,000 (2011: HK$714,000).

b. Other subsidies are generally provided in relation to development of certain pharmaceutical products or to improve effectiveness of the production or enhancement of environmental protection. Since the Group has not complied with the conditions attaching to certain of grants as at the end of the reporting periods and the grants are refundable in accordance with contract terms, amounts are included as payables. During the year ended 31 December 2012, the Group recognised income of approximately HK$3,828,000 (2011: HK$4,547,000).

36. SHARE CAPITAL

Under a reverse acquisition, the amounts of share capital and share premium in the consolidated statement of financial position have been retrospectively adjusted to reflect the legal capital of the Company.

THE COMPANY

	Number of shares		Share capital	
	2012	2011	**2012**	2011
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of year	**3,000,000**	3,000,000	**300,000**	300,000
Increase on 19 October 2012	**27,000,000**	—	**2,700,000**	—
At end of year	**30,000,000**	3,000,000	**3,000,000**	300,000
Issued and fully paid				
At beginning of year	**1,529,767**	1,534,961	**152,977**	153,496
Issued as part of consideration for the acquisition of the issued share capital of Robust Sun Group	**1,195,655**	—	**119,565**	—
Shares repurchased and cancelled	**—**	(5,194)	**—**	(519)
At end of year	**2,725,422**	1,529,767	**272,542**	152,977

37. CONVERTIBLE BONDS

On 29 October 2012, the Company issued two tranches of Convertible Bonds with principal amount of US$774,029,472.70 (equivalent to HK$6,037,429,887.06) ("Tranche I Bonds") and US$86,003,274.70 (equivalent to HK$670,825,542.66) ("Tranche II Bonds") to the Seller upon the completion of the Acquisition.

The Convertible Bonds are non-redeemable and non-interest bearing, and are convertible into the Company's ordinary shares at a conversion price of HK$2.15 subject to anti-dilution adjustments. The principal amount of the Convertible Bonds is subject to downward adjustment (note) depending on the financial performance of the Robust Sun Group for the year ended 31 December 2012 and year ending 31 December 2013 (or 31 December 2014 in certain circumstance). The number of shares that will ultimately be issued by the Company to the Seller will vary depending on the profitability of the Robust Sun Group for these financial years.

37. CONVERTIBLE BONDS *(continued)*

Note:

For the year ended 31 December 2012, if the net profit of the Robust Sun Group is less than HK$600 million, the principal amount of the Tranche I Bonds will be reduced by the formula: the principal amount of the Tranche I Bonds times the fraction of the actual net profit of the Robust Sun Group during the year ended 31 December 2012 and HK$600 million. For the year ending 31 December 2013 (or 31 December 2014 in certain circumstance), if the net profit of the Robust Sun Group is less than HK$800 million, the Tranche II Bonds shall be deemed to be cancelled.

The initial maturity date is on 29 October 2017 or extended maturity date of 29 October 2018 if the Convertible Bonds cannot convert due to Minimum Public Float Limitation (defined below) at the initial maturity date. All outstanding Convertible Bonds on the initial maturity date will be mandatorily converted at the conversion price applicable at that time except it fails to meet the Minimum Public Float Limitation. If any outstanding convertible bonds remain unconverted at the close of business on the extended maturity date, whether by reason of the minimum Public Float requirement or otherwise, all such unconverted Convertible bonds shall deemed to be cancelled and bondholders shall not be entitled to any consideration, remedy or compensation whatsoever with respect to such cancellation.

Tranche I Bonds become convertible only after the announcement of the Company's consolidated financial results for the year ended 31 December 2012 while Tranche II Bonds become convertible only after the announcement of the Company's consolidated financial results for the year ended 31 December 2013, or if applicable, for the year ending 31 December 2014.

Minimum Public Float Limitation refers to the conversion rights attached to the Convertible Bonds are subject to a further requirement that the public float of the Company must at all times comply with the requirements of Rule 8.08 of the Listing Rules. If the conversion of any Convertible bonds would case the public float of the Company to fall below 25% of its total issued share capital, the aggregate principal amount of the Convertible Bonds to be converted shall be reduced by such amount as necessary for the public float of the Company to comply with Rule 8.08 of the Listing Rules.

In accordance with HKAS32 "Financial Instruments: Presentation" ("HKAS 32") paragraph 18, the substance of the contractual terms of a financial instrument, rather than its legal form, governs its classification on the issuer's statement of financial positions. In general, debt element is the contractual obligation by the issuer to deliver cash or other financial assets, while the equity element is represented by the holder's right to receive an equity return in the form of dividends, if declared.

Although the Convertible Bonds do not contain contractual obligation for the issuer to deliver cash or other financial assets, the Tranche I Bonds failed the "fixed-for-fixed" requirement in HKAS 32 paragraph 11 as at the date of issuance as the Company may be obliged to deliver a variable number of its ordinary shares because of the downward adjustment depending on the financial performance of the Robust Sun Group for the year ended 31 December 2012. Tranche II Bonds will be converted either into full or nil and there is no future adjustment on the conversion ratio. Accordingly, the Tranche II Bonds was classified as equity at the date of issuance while the Tranche I Bonds was classified as financial liabilities at fair value through profit and loss of the Group at the date of issuance and no separate amounts of the debt and equity components were arrived at when determining the fair values of the Convertible Bonds at the date of issuance.

Based on the net profit of Robust Sun Group for the year ended 31 December 2012, there is no downward adjustments of Tranche I Bonds and the respective bonds were derecognized as financial liabilities at fair value through profit and loss and its carrying amount as at 31 December 2012, represented by its fair value as at that date is re-classified to equity.

37. CONVERTIBLE BONDS *(continued)*

The fair value of the Convertible Bonds at 29 October 2012 and 31 December 2012 have been arrived at on the basis of a valuation carried out on that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified valuer not connected to the Group. The fair value of the Convertible Bonds are determined based on the value of converted shares less discount of the period that holder cannot exercise the Convertible Bonds calculated under ATM Put.

The fair values of the Convertible Bonds is estimated using the following inputs:

Tranche I Bonds

Valuation date	29 October 2012	31 December 2012
Principal Amount	HK$6,037,429,887	HK$6,037,429,887
Conversion Price	HK$2.15	HK$2.15
No of shares to be converted	2,808,106,924	2,808,106,924
Closing market price of the Company at the valuation date	HK$2.15	HK$2.23
Diluted share price	N/A	HK$2.19

For the calculation of discount for period holder cannot exercise the Convertible Bonds

Share price used in ATM Put	HK$2.15	HK$2.19
Exercise Price	HK$2.15	HK$2.15
Risk free rate	0.12%	0.05%
Dividend Yield	0%	0%
Implied Volatility	35%	35%
Starting date of the conversion	31 March 2013	31 March 2013
Fair value of the Convertible Bonds	HK$5,494,502,806	HK$5,717,241,828

Tranche II Bonds

Valuation date	29 October 2012
Principal Amount	HK$670,825,543
Conversion Price	HK$2.15
No of shares to be converted	312,011,880
Closing market price of the Company at the valuation date	HK$2.15
Diluted share price	N/A

For the calculation of discount for period holder cannot exercise the Convertible Bonds

Share price used in ATM Put	HK$2.15
Exercise Price	HK$2.15
Risk free rate	0.18%
Dividend Yield	0%
Implied Volatility	35%
Starting date of the conversion	31 March 2014
Fair value of the Convertible Bonds	HK$561,041,476

The risk free rate used is referred to the yield of the Hong Kong Monetary Authority Exchange Fund Bills and Notes. The closing market price of the Company, dividend yield and implied volatility are reference to the published information by Bloomberg.

37. CONVERTIBLE BONDS *(continued)*

The starting date of the conversion of the Convertible Bonds is determined to be the last day of March of 2013 and 2014 for Tranche I Bonds and Tranche II Bonds, respectively, as this is the last day of announcing the Company's consolidated financial result for the year ended 31 December 2012 and year ending 31 December 2013 in accordance with the Listing Rules.

The movement of the Convertible Bonds is set out below:

	Tranche I Bonds	Tranche II Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*
Convertible Bonds issued on 29 October 2012	5,494,503	561,041	6,055,544
Change in fair value recognised in profit and loss	222,739	—	222,739
At 31 December 2012	5,717,242	561,041	6,278,283

38. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (i.e. 153,812,466 shares). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

38. SHARE OPTION SCHEME *(continued)*

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

39. INVESTMENTS IN SUBSIDIARIES

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Unlisted investments, at cost	**9,792,453**	1,465,164

Particulars of the Company's principal subsidiaries as at 31 December 2012 and 2011 are set out in note 47.

40. RESERVES OF THE COMPANY

	Share premium	**Capital redemption reserve**	**Convertible bonds**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	1,116,727	316	—	413,770	1,530,813
Final dividend for the year ended 31 December 2011	—	—	—	(367,732)	(367,732)
Profit for the year	—	—	—	274,507	274,507
Share repurchased and cancelled	—	519	—	(20,833)	(20,314)
At 31 December 2011 and 1 January 2012	**1,116,727**	**835**	**—**	**299,712**	**1,417,274**
Profit for the year	**—**	**—**	**—**	**88,549**	**88,549**
Issue of new shares	**2,152,179**	**—**	**—**	**—**	**2,152,179**
Issue of convertible bonds	**—**	**—**	**561,041**	**—**	**561,041**
Transfer of convertible bonds from liability components to equity components	**—**	**—**	**5,717,242**	**—**	**5,717,242**
At 31 December 2012	**3,268,906**	**835**	**6,278,283**	**388,261**	**9,936,285**

41. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2012, construction costs and acquisition of property, plant and equipment amounting to approximately HK$746,757,000 (2011: HK$167,859,000) were unsettled and included in other payables.

(ii) As part of the group reorganisation as set out in note 3, i) OYY disposed its 75% interest in NBP to China Charmaine at a consideration of approximately RMB126,071,000 (equivalent to HK$153,745,000); ii) Dragon Merit purchased 100% shares of NBP from China Charmaine at approximately RMB168,095,000 (equivalent to HK$205,109,000); iii) NBP acquired 100% equity interest of OYY and 98.69% equity interest in XNW from SPG at approximately RMB296,695,000 (equivalent to HK$361,823,000) and RMB172,603,000 (equivalent to HK$210,492,000), respectively in May 2012. Considerations of approximately HK$572,315,000 remains unsettled and included in amounts due from/to related parties as at 31 December 2012.

42. OPERATING LEASE COMMITMENTS

The Group as lessee

	The Group	
	2012	2011
	HK$'000	*HK$'000* (restated)
Minimum lease payments paid under operating leases during the year in respect of warehouse and motor vehicles	**12,364**	7,543

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000*
Within one year	**6,022**	1,491	**2,175**	2,313
In the second to fifth year inclusive	**2,330**	1,034	**552**	2,567
	8,352	2,525	**2,727**	4,880

Operating lease payments represent rentals payable by the Group for certain of its warehouses and motor vehicles. Leases are negotiated and rentals are fixed for terms of one to five years.

42. OPERATING LEASE COMMITMENTS *(continued)*

The Group as lessor

Property rental income earned during the year ended 31 December 2012 were approximately HK$568,395 (2011: HK$397,000).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
		(restated)
Within one year	**513**	—
In the second to fifth year inclusive	**797**	—
	1,310	—

43. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
		(restated)
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment and intangible assets	**296,723**	198,722

The Company had no capital commitments at the end of the reporting period.

44. ACQUISITION OF A SUBSIDIARIES

The Company acquired 100% of the equity interest in Robust Sun Group and the Acquisition was completed on 29 October 2012. As set out in note 2, the Acquisition was accounted for as a reverse acquisition, under which the Robust Sun Group was treated as the acquirer and the CPG Group was deemed to have been acquired by Robust Sun.

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

	HK$'000
Property, plant and equipment	4,988,184
Prepaid lease payments	410,617
Intangible assets	10,246
Interest in a jointly controlled entity	36,495
Available-for-sale investments	1,705
Deferred tax assets	56,285
Inventories	1,371,989
Trade and other receivables	1,873,929
Bills receivables	537,830
Prepaid lease payments	11,276
Tax recoverable	20,404
Trade receivables due from a connected company	38,102
Trade receivables due from related companies	49,574
Amount due from a jointly controlled entity	57,542
Derivative financial assets	353
Restricted bank deposits	20,523
Bank balances and cash	701,161
Trade and other payable	(1,918,964)
Government grant payable	(58,634)
Provision for litigation	(206,700)
Bills payables	(571,801)
Amounts due to related companies	(77,588)
Tax liabilities	(8,610)
Unsecured bank loans	(2,043,353)
Deferred tax liabilities	(43,135)
Total net assets acquired	5,257,430
Less: non-controlling interests	(157,730)
	5,099,700

Cash inflow arising on acquisition	*HK$'000*
Cash and cash balances acquired	701,161

44. ACQUISITION OF A SUBSIDIARIES *(continued)*

The fair value of trade and other receivables at the date of acquisition amounted to approximately HK$1,873,929,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$1,889,312,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$15,383,000.

The fair values of the property, plant and equipment, prepaid lease payments and intangible assets were estimated by applying depreciated replacement cost approach, market approach (with reference to recent market prices for similar land in similar locations) and income approach, respectively.

The recognition by the Robust Sun Group of gain on the bargain purchase of the CPG Group, arising from the Acquisition, is as follows:

	HK$'000
Fair value of the net identifiable assets and liabilities less non-controlling interest	5,099,700
Less: Fair value of deemed consideration *(note)*	(3,288,998)
Gain on bargain purchase of the CPG Group	1,810,702

Note: The deemed consideration for the acquisition of the CPG Group amounted to approximately HK$3,288,998,000, representing the fair value of the 1,529,766,661 ordinary shares of the Company in issue immediately prior to the Acquisition. The fair value of the ordinary shares of the Company was determined by reference to the published closing market price of HK$2.15 per share at the date of the Acquisition i.e. 29 October 2012.

Gain on bargain purchase arose in the acquisition and represents the difference between the deemed consideration as determined by the market capitalisation of CPG and the net fair value of assets and liabilities of the CPG Group acquired as estimated by valuation techniques as mention above. The bargain purchase is recognised as a gain in the consolidated profit and loss and arose during the reverse acquisition due to the fact that as at the date of the reverse acquisition, the shares of CPG were traded at a significant discount to the fair value of its consolidated net identifiable assets and liabilities.

Included in the profit for the year ended 31 December 2012 is approximately HK$272,814,000 loss attributable to the additional business generated by the CPG Group. Revenue for the year ended 31 December 2012 includes approximately HK$1,040,097,000 generated from the CPG Group.

Had the acquisition been completed on 1 January 2012, total Group revenue for the year would have been approximately HK$9,634,829,000, and profit for the year ended 31 December 2012 would have been approximately HK$1,678,825,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

44. ACQUISITION OF A SUBSIDIARIES *(continued)*

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

45. CONTINGENT LIABILITIES AND GUARANTEES

(i) Litigations

The Company and one of its subsidiaries under CPG Group are named as, among others, defendants in a number of antitrust complaints filed in the United States. These complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the federal and state laws of the United States. It is alleged in these companies that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and therefore, suffered losses. The plaintiffs sought damages and other relief on behalf of direct purchasers under the federal antitrust laws of the United States and indirect purchasers under various state antitrust, unfair trade and consumer protection statutes. Up to the date of this report, four complaints have been served on the Company and three complaints have been served on the subsidiary. The legal adviser of the Company and the subsidiary has successfully consolidated all such cases to be heard in the federal court in New York for pretrial purpose.

The Company submitted a motion to dismiss direct purchaser and indirect purchaser actions for lack of personal jurisdiction, which was fully briefed as of 27 May 2008. In addition, on 31 August 2009, the Company submitted an alternative motion for summary judgment to dismiss the direct purchaser action on the ground there is insufficient evidence indicating the Company was involved in the alleged conspiracy. On 17 July 2012, the Court denied these motions in the direct purchaser actions

Pursuant to a stipulation entered into by plaintiffs and defendants in November 2008, all procedures in actions brought by indirect purchaser plaintiffs are stayed until a final judgment is entered by the Court in the direct purchaser action. Set forth below is a summary of main matters pertaining to the direct purchaser action.

Fact discovery relevant to merits was concluded in October 2008. Expert discovery on damages was completed by 7 September 2012.

On 26 January 2012, the Court issued an order permitting two named plaintiffs to represent other similarly situated purchasers in pursuing the claims in the direct purchaser case.

The subsidiary and other defendant manufacturers submitted a joint motion for summary judgment, asserting the alleged conduct was compelled by Chinese government pursuant to Chinese laws and policy. That motion was fully briefed as of 5 February 2010. On 6 September 2011, the Court issued an order denying defendants' joint motion for summary judgment. On 9 February 2012, the Court denied defendants' request for permission to immediately appeal its September 2011 order.

45. CONTINGENT LIABILITIES AND GUARANTEES *(continued)*

(i) Litigations *(continued)*

On 21 May 2012, plaintiffs filed a motion for preliminary approval of settlements with one of the defendants in all actions. This defendant agreed to settle with direct purchasers for US$9.5 million and indirect purchasers for US$1 million. It also agreed to comply with any injunction the Court may enter against any other defendant. The Court preliminarily approved the settlements on 14 June 2012. The Court approved the settlements on 24 October 2012.

In light of the latest development in October 2012, the director and management of the Company considered the possibility of settlement with plaintiffs and, based on the management's best estimate as of October 29, 2012 and December 31, 2012, the potential obligations including related legal cost is estimated to be approximately US$26.5 million (approximately HK$206.7 million) and the provision for litigation was included in the fair value of the net identifiable asset and liabilities as of the date of the Acquisition (note 44).

The Company and its subsidiary reached settlement on 12 March 2013 with direct purchasers in the amount of US$22.5 million (equivalent to approximately HK$174.6 million). The settlement agreement is executed on 15 March 2013 and subject to approval by the Court. The above said settlement does not apply to the actions brought by the indirect purchasers, where such actions were stayed until final judgment is entered by the Court in the direct purchasers action.

(ii) Guarantees

		The Group	
	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Guarantees given to banks in respect of credit facilities granted to			
(i) SPG			
— amount guaranteed	—	1,197,531	552,940
— amount utilised	—	1,097,284	494,118
(ii) third parties			
— amounts guaranteed	—	37,037	70,588
— amounts utilised	—	37,037	64,706

As at 31 December 2011, an amount of HK$13,355,000 (2012: Nil) has been recognised in the consolidated statement of financial position as liabilities.

45. CONTINGENT LIABILITIES AND GUARANTEES *(continued)*

(ii) Guarantees *(continued)*

The movement of guarantee liabilities are shown as below:

	HK$'000
At 1 January 2011 (restated)	10,587
Recognition of fair values of financial guarantee contracts	17,676
Amortisation of financial liabilities	(14,908)
At 31 December 2011 and 1 January 2012 (restated)	**13,355**
Recognition of fair values of financial guarantee contracts	**5,130**
Amortisation of financial liabilities	**(18,485)**
At 31 December 2012	**—**

The fair values were calculated by using the default risk method for the banking facilities obtained by the related parties and the third parties. The fair values were based on certain key assumptions on credit strength of the borrowers and default rate. Financial guarantee contracts are initially recognised at fair value and subsequently amortised in accordance with HKAS 18 Revenue over the guarantee periods, ranging from one to two years. No guarantee liabilities had been utilised in 2011 and the guarantees given to banks in respect of credit facilities granted to SPG and the third parties are all released in August 2012.

46. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$43,766,000 (2011:nil), of which HK$194,000 (2011: nil) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

47. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly		Indirectly		
				% 2012	% 2011	2012	2011	
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	**100**	100	**—**	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	**100**	100	**—**	—	Investment holding
CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd*	The PRC	Foreign investment enterprise with limited liability	RMB287,626,000 (2011: RMB273,150,000)	**100**	100	**—**	—	Manufacture and sale of pharmaceutical products
Weisheng	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	**100**	100	**—**	—	Manufacture and sale of pharmaceutical products
CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd #	The PRC	Sino-foreign equity joint venture company	RMB906,300,300	**88.82**	—	**10.57**	—	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	100	**—**	—	Provision of pharmaceutical research and development services
Zhongrun Huanbao	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	**—**	—	**99.29**	99.29	Sewage treatment
CSPC (Inner Mongolia) Zhongkang Sugar Products Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB33,000,000	**—**	—	**100**	100	Manufacture and sale of pharmaceutical products
Yinhu	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000 (2010: RMB100,000,000)	**—**	—	**90**	90	Manufacture and sale of pharmaceutical products
CSPC Cenway (Tianjin) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB155,000,000	**—**	—	**89.36**	89.36	Manufacture and sale of pharmaceutical products

47. PARTICULARS OF SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly		Indirectly		
				% **2012**	% 2011	**2012**	2011	
CSPC Cenway (Inner Mongolia) Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB40,000,000	**–**	–	**94.57**	94.57	Manufacture and sale of pharmaceutical products
Beijing Cenway Pharmaceutical Technology Research Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB5,000,000	**–**	–	**89.36**	89.36	Provision of pharmaceutical research and development services
Siping	The PRC	Sino-foreign equity joint venture company	RMB39,529,435	**40**	40	**19.86**	19.86	Manufacture and sale of pharmaceutical products
Unigene Biotechnology Co., Ltd.	The PRC	Sino-foreign equity joint venture company	US$7,000,000	**55**	55	**–**	–	Provision of pharmaceutical research and development services
CSPC Zhongzhen Pharmaceutical Logistic Company Limited	The PRC	Sino-foreign equity joint venture company	RMB50,000,000	**–**	–	**98.3**	98.3	Storage, sourcing and distribution
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB1,000,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB45,000,000	**–**	–	**100**	100	Manufacture and sale of pharmaceutical products
CSPC Medsolution (Ghana) Limited	Ghana	Foreign investment enterprise with limited liability	GHS437,400	**–**	–	**100**	100	Sales of pharmaceutical products

47. PARTICULARS OF SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly		Indirectly		
				% 2012	% 2011	2012	2011	
Robust Sun	The BVI	Limited liability	US$2	100	—	—	—	Investment holding
Dragon Merit	Hong Kong	Limited liability	HK$2	—	—	100	—	Investment holding
NBP	The PRC	Foreign investment enterprise with limited liability	RMB 190,000,000	—	—	100	—	Manufacture and sales of pharmaceutical products
OYY	The PRC	Foreign investment enterprise with limited liability	RMB 150,000,000	—	—	100	—	Manufacture and sales of pharmaceutical products
I&E	The PRC	Foreign investment enterprise with limited liability	RMB 100,000	—	—	100	—	Trading of pharmaceutical products
XNW	The PRC	Sino-foreign equity joint venture company	RMB 150,000,000	—	—	98.69	—	Manufacture and sales of pharmaceutical products
Huasheng	The PRC	Sino-foreign equity joint venture company	RMB 4,000,000	—	—	55	—	Manufacture and sales of pharmaceutical products
OIP	The PRC	Foreign investment enterprise with limited liability	RMB 50,000,000	—	—	100	—	Inactive

\# During the year, Zhongrun, Zhongnuo, Gaoke and Heibei Hong Yuan Chemical Co., Ltd merged and become one single company and renamed as CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.

* During the year, Inner Mongolia Zhongxingyuan Sewage Treatment Co., Ltd and CSPC (Inner Mongolia) Zhongxing Huanbao Co, Ltd were merged into CSPC Zhongrun Pharmaceutical (Inner Mongolia) Co., Ltd. to become one single company.

None of the subsidiaries had any debentures outstanding at the end of the year or at any time during the year.

Financial Summary

	For the year ended December 31,			
	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*	*(Note)*	
Results				
Revenue	1,296,275	1,757,586	2,407,445	**4,146,444**
Profit before taxation	158,444	205,731	418,138	**2,300,823**
Profit for the year and total comprehensive income attributable to owners of the Company	132,931	196,587	395,077	**2,194,755**

	As at December 31,			
	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)	*(Note)*	*(Note)*	
Assets and liabilities				
Total assets	1,299,296	1,758,229	2,408,914	**13,698,441**
Total liabilities	716,718	1,084,997	1,447,962	**6,934,966**
Net assets	582,578	673,232	960,952	**5,536,525**

Note:

The summary of the consolidated results of the Group for each of the three years ended December 31, 2009, 2010 and 2011, and of the consolidated assets and liabilities as at December 31, 2009, 2010 and 2011, have been extracted from the Company's Circular dated 26 September 2012 in connection with the Acquisition set out in note 2 of the consolidated financial statement. Such summary was prepared on the merger basis as if the current structure of the Group had been in existence throughout these financial years. The consolidated results of the Group for the year ended December 31, 2012, and the consolidated assets and liabilities as at December 31, 2012, are those set out in the audited consolidated financial statements.