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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

2012 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

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

CHAIRMAN'S STATEMENT

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

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

As our inventory pressure was relieved, the selling price of 6-APA, the Group's intermediate product, rebounded from the bottom, and that of 7-ACA, another intermediate product of the Group, started to stabilize. Capitalized on its leading position in the industry, United Laboratories earnestly improved its core capacity, developed new products and explored emerging markets according to market needs, to seek opportunities amidst such a changing situation, with a view to realizing consistent growth of business. During the year, the Group's turnover amounted to approximately HK$7,021.6 million, an increase of approximately 9.6% over that of 2011. EBITDA and profit before taxation were approximately HK$1,003.2 million and HK$248.3 million respectively, representing an increase of approximately 26.2% and 35.6% over the same period in the previous year, respectively. The profit attributable to owners of the Company was approximately HK$162.0 million, representing an increase of 55.3% over the same period in the previous year. Earnings per share amounted to HK10.7 cents. The board of directors does not recommend payment of final dividend for the year ended 31 December 2012.

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

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

For financial strategy, in order to cope to business development and seize market opportunities, during the year, the Group optimized the financial structure through different financing channels to ensure adequate working capital. The Group raised funds from a rights issue at HK$2.21 per share in March 2012, with the proceeds used for expansion of the Group's production capacity and for general working capital purposes. The rights issue received overwhelming market response, which proved that the shareholders support the

Group's overall development strategy and appreciate our investment value. Furthermore, in the first half of 2012, 珠海聯邦製藥股份有限公司, a wholly-owned subsidiary of the Group, issued one-year corporate bonds with principal up to RMB600 million, the net proceeds of which had been primarily used to purchase raw materials, market new products, expand sales network, develop our business and repay bank loans. Our strong financial position and sufficient working capital served as momentum for sustainable growth of the Group's business.

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

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

Looking ahead, medical reform in the PRC will continue. The state has clearly stated that it will invest more resources to support the pharmaceutical industry. The Essential Drugs List eagerly awaited by the market will be launched in March of this year. Number of drugs covered under this list will be significantly increased from the previous 307 to 520, of which, 317 are chemical/ biological drugs, and the Group's insulin and amoxicillin products are also on the list. As announced by the Ministry of Health, the list will be enforced on 1 May of this year. Since the Group is well positioned to secure rural market and basic healthcare institutions, it is expected that launch of new list will improve sales of our relevant products and thereby propel continuous growth of related business. In addition, power station of Inner Mongolia plant, which was invested for construction before, was completed. Phase IV and V of the Inner Mongolia plant are expected to commence production in the second half of this year, which will further reduce our production cost and increase production efficiency, effectively matching with the pace of developing the export and domestic distribution markets.

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

(1) we will continue to expand sales networks, strengthen penetration in domestic rural markets and communities, put great efforts to increase overseas sales, and actively explore new markets with growth potentials;
(2) we will continue to bring its cutting edge in research and development into play to develop products with high margin and demand;
(3) we will continue to regard the recombinant human insulin products as the key product of the Group and invest substantial resources to capture a larger market share;
(4) we will consider promoting the sales of related products to overseas markets as the Group’s insulin products have received international recognition in terms of quality and production technology; and
(5) we will focus on driving the sales of the newly-packaged large-sized amoxicillin and ampicillin, with a view to turning them into new growth engines for finished products sales.

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

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

2012 ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2012 together with the comparative figures for the year 2011 as follows:

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

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

Consolidated Statement of Financial Position
At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	12	**8,379,224**	5,638,860
Prepaid lease payments		**144,488**	110,493
Goodwill		**3,770**	3,740
Intangible assets		**2,774**	2,303
Deposit for leasehold land		**164,532**	51,474
Deposits for acquisition of property, plant and machinery		**803,810**	449,153
Available-for-sale investment		**-**	-
Deferred tax asset		**32,211**	24,323
		9,530,809	6,280,346
Current assets			
Inventories		**1,813,609**	1,537,955
Trade and bills receivables, other receivables, deposits and prepayments	13	**2,896,789**	2,505,853
Derivative financial instruments		**4,426**	-
Prepaid lease payments		**3,542**	2,701
Pledged bank deposits		**1,246,403**	589,446
Bank balances and cash		**646,125**	948,604
		6,610,894	5,584,559
Current liabilities			
Trade and bills payables and accrued charges	14	**3,416,616**	2,286,763
Derivative financial instruments		**4,669**	1,517
Convertible bonds		**943,431**	-
Obligations under finance leases - due within one year		**238,950**	-
Tax payables		**33,026**	33,837
Borrowings – due within one year		**4,322,486**	3,086,309
		8,959,178	5,408,426
Net current (liabilities) assets		**(2,348,284)**	176,133
Total assets less current liabilities		**7,182,525**	6,456,479
Non-current liabilities			
Deferred tax liabilities		**64,899**	75,841
Convertible bonds	15	**-**	954,017
Obligations under finance leases - due after one year		**421,950**	-
Borrowings – due after one year		**600,987**	250,000
		1,087,836	1,279,858
		6,094,689	5,176,621
Capital and reserves			
Share Capital	16	**16,269**	13,015
Reserves		**6,078,420**	5,163,606
Equity attributable to owners of the Company		**6,094,689**	5,176,621

Notes:

1. General

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

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

2. Basis of preparation of consolidated financial statements

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

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

3. Application of new and revised Hong Kong Financial Reporting Standards

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

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

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

Amendments to HKFRS 7 Disclosures - Transfers of Financial Assets

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

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

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

The relevant disclosures regarding the transfer of these receivables on application of the amendments to HKFRS 7 have not been changed as the relevant disclosures have already been made by the Group in the previous year audited consolidated financial statements.

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

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

1 Effective for annual periods beginning on or after 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2015.

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

4 Effective for annual periods beginning on or after 1 January 2014.

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

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

4. Turnover and Segment information

Turnover

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

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

Segment information

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

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

(a) Segment turnover and results:

Year ended 31 December 2012

	Intermediate products	Bulk medicine	Finished products	Segment Total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	**1,571,494**	**3,297,839**	**2,152,291**	**7,021,624**	**-**	**7,021,624**
Inter-segment sales	**1,274,164**	**266,593**	**-**	**1,540,757**	**(1,540,757)**	**-**
	2,845,658	**3,564,432**	**2,152,291**	**8,562,381**	**(1,540,757)**	**7,021,624**
RESULT						
Segment profit	**22,058**	**55,394**	**426,771**			**504,423**
Unrealised profit elimination	**6,720**	**(9,758)**	**(2,538)**			**(5,576)**
	28,778	**45,836**	**424,233**			**498,847**
Unallocated other income						**23,291**
Unallocated corporate expenses						**(114,105)**
Other gains and losses						**(874)**
Gain on fair value change of embedded derivative components of convertible bonds						**56,085**
Finance costs						**(214,931)**
Profit before taxation						**248,313**

Year ended 31 December 2011

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

Measurement

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

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

Intersegment turnover is charged at prevailing market rates.

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

(b) Segment assets and liabilities:

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

Measurement

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

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

(c) Reconciliation of reportable segment assets and liabilities

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

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

(d) Other segment information

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

For the year ended 31 December 2012

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

For the year ended 31 December 2011

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

(e) Geographical information

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

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

Notes:

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

(2) Non-current assets excludes deferred tax asset.

(f) Information about major customers

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

5. Other income

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

6. Other gains and losses

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

7. Finance costs

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

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

8. Taxation

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

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

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

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投资企業和外國企業所得稅法》) and Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《外商投资企業和外國企業所得稅法實施細則》), both of which came into force on 1 July 1999, certain subsidiaries in the PRC are entitled to exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter will be entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Such tax benefit for respective subsidiaries had expired from 1 January 2010 to 31 December 2012.

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

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

9. Profit for the year

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

10. Dividend

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

The Board does not recommend payment of final dividend for the year ended 31 December 2012 (2011:Nil).

11. Earnings per share

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

Earnings

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

Number of shares

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

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

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

12. Movements in property, plant and equipment

During the year, the Group spent approximately HK$3,231,943,000 (2011: HK$1,240,469,000) on the acquisition of factory premises and manufacturing plant, in order to upgrade its manufacturing capabilities.

13. Trade and bills receivables, other receivables, deposits and prepayments

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

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

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

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

14. Trade and bills payables and accrued charges

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

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

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

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

15. Convertible bonds

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

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

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

The Company may at any time after 14 November 2013 redeem all, but not some only, of the Bonds for the time being outstanding at a fixed amount of their RMB principal amount at the settlement date and paid in US$ equivalent translated at the spot rate at the settlement date, together with interest accrued to the date fixed for redemption, provided that the closing price of the shares of the Company translated into RMB at the prevailing rate applicable to the relevant trading day, for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is published was at least 140% of the conversion price then in effect, translated into RMB at the fixed rate of HK$1.00 = HK$0.8137.

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

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

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

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

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

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

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

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

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

16. Share capital

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

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

17. Capital commitments

At 31 December 2012, the Group had commitments for capital expenditure of HK$1,557,680,000 (2011: HK$1,182,746,000) in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

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

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

Growth in Export sales drove by intermediate and bulk medicine products

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

Successful expansion in rural markets

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

Great progress in the launch of recombinant human insulin products

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

Increase in financing sources

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

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

Liquidity and Financial Resources

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

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

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

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

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

Currency Exchange Exposures

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

Contingent Liabilities

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

Outlook for 2013

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

<u>Expanding sales network to cover rural markets and communities</u>

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

<u>Continuing development of the international market of intermediate and bulk medicine products</u>

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

<u>Developing new production process to reduce production cost</u>

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

<u>Developing new products and expanding the sales of recombinant human insulin products in international markets</u>

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

Employees and Remuneration

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("New CG Code") (previously known as Code on Corporate Governance Practices ("Former CG Code")) contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarized below:

- Code Provision A.1.8

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

- Code Provision A.2.1

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

- Code Provision A.6.7

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

- Code Provision B.1.3

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

- Code Provision E.1.2

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Mr. Song Ming and Ms. Fu Xian Nan. The Audit Committee has reviewed and discussed matters relating to internal controls and financial statement, including a review of the audited financial statement for the year ended 31 December 2012.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) Mr. Choy Kam Lok, Mr. Leung Wing Hon, Mr. Tsoi Hoi Shan, Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as executive directors; (2) Ms. Choy Siu Chit as a non-executive director; and (3) Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board
Choy Kam Lok
Chairman

Hong Kong, 27 March 2013