利君國際醫藥

(控股)有限公司

Lijun International Pharmaceutical (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2005

Annual Report

2012

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Wu Qin *(Chairman)*
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Wang Xianjun
Mr. Duan Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chow Hing Yeung

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Xie Yunfeng

AUDIT COMMITTEE

Mr. Chow Kwok Wai *(Chairman)*
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun *(Chairman)*
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing *(Chairman)*
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House, 24 Shedden Road
George Town, Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre
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Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong) Ltd.
Industrial and Commercial Bank of China
China Construction Bank
China Merchants Bank
China Minsheng Banking Corp., Ltd.
China CITIC Bank
Hang Seng Bank
China CITIC Bank International
Bank of Communications
Shanghai Pudong Development Bank
Agricultural Bank of China
Bank of Hebei

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

PricewaterhouseCoopers

WEBSITE

http://www.lijun.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company"), I hereby present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

1. RESULTS AND DIVIDEND DISTRIBUTION

Although still facing a difficult operating environment, the pharmaceutical industry in China has begun to turnaround during the year. As China's pharmaceutical tendering system becomes more scientific and reasonable, the downward slide of the prices of pharmaceutical products obviously has come to a halt. On the other hand, the mandatory implementation of the new GMP has increased the entry barrier of the industry, thereby further regulating and enhancing the competitive environment despite increased operating costs for the Company due to technical reform investments. Intravenous infusion solutions of the Company were the first to benefit from this as they were among the firsts to pass the new GMP certifications, which has bestowed them with the initiative of development to achieve sustained fast growth in the operating results.

During the year, the Group's revenue of its principal businesses amounted to HK$2,430,684,000, representing an increase of 12.8% as compared to the same period last year, among which, HK$1,012,510,000 was from Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun"), representing a year-to-year decrease of 9.5%, and HK$1,418,174,000 was from Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), representing a year-to-year increase of 36.8%. The Group achieved a net profit of HK$281,003,000 (loss of HK$41,401,000 for 2011 due to provision for goodwill and other reasons).

The board of directors recommended the payment of final dividend of HK$0.02 per share, totaling HK$58,599,000, and total dividend for the year was HK$107,431,000, representing an increase of 9.9% as compared to last year.

2. REVIEW OF OPERATING RESULTS

(1) Product marketing

1. Continued expansion of market share, further enhancement in structure and sustained growth in the scale of production and sales for intravenous infusion solutions

Rapid growth of the intravenous infusion solutions business has provided a strong support for the development of the Group on the whole. Shijiazhuang No. 4 Pharma's project of newly constructed modernized production line for soft-packaging infusion solutions and the construction of auxiliary stereoscopic logistics warehouse has completed construction and passed the new GMP certification. Coupled with the commencement of production of all new infusion products such as double-outlet double valve, the advantages brought by the growth in capacity and categories were obvious. Overall sales of intravenous infusion solutions amounted to HK$1,238,645,000, representing a year-to-year increase of 30.9%, of which growth of sales of soft-packaging infusion solutions was 57.7%.

2. **REVIEW OF OPERATING RESULTS** *(Continued)*

(1) **Product marketing** *(Continued)*

1. ***Continued expansion of market share, further enhancement in structure and sustained growth in the scale of production and sales for intravenous infusion solutions*** *(Continued)*

Centering around the main theme of product mix adjustment and taking pharmaceutical tendering and bidding as a crucial duty, the Group's efforts in consolidating the existing market were paralleled by exploration of targeted hospitals in order to incessantly strengthen and diversify the forces and measures in selling soft-packaging infusion solutions and therapeutic infusion solutions, in order to achieve sustained growth in results through leveraging on products with high added-values. The success rate of bidding of therapeutic infusion solution was outstanding, and has fuelled and enhanced adjustments in the product mix.

The export and processing businesses continued to record growth, with three new countries as destinations of export, namely Thailand, Sierra Leone and Papua New Guinea. Currently, 45 specifications and 25 categories of products of Shijiazhuang No. 4 Pharma have completed product registration in 17 countries, which has further widened the sales channel and market for the export of infusion solutions, leading to rapid growth in the export and processing trading. Export and processing trading amounted to RMB102,000,000, representing a year-to-year increase of 65%.

2. ***Antibiotics products failed expectation as impacted by the "double-restriction" policy of China***

Sales of antibiotics products of the Group were under increasing pressure under a sluggish market as impacted by the "double-restriction" policy of China in price and quantity. In face of the difficult situation, the Group has focused on product sales and continued to reinforce the development of terminal markets and sales expansion, which have retarded the downward momentum of the sales of antibiotic products to the largest extent. During the period, sales of antibiotics products amounted to HK$523,602,000, representing a year-to-year decrease of 16.8%. Among which, sales of Lijunsha amounted to HK$261,422,000, representing a year-to-year decrease of 31.7%, whereas sales of Azithromycin series was HK$121,645,000, representing a year-to-year increase of 8.2%.

3. ***Stable operation of key preparation products and general medicines***

Affected by the "toxic capsule" incident of other companies in China, Dobesilate recorded a decline in sales, and recorded a sales of HK$89,165,000 during the year, representing a year-to-year decrease of 3.7%. Sales of Lixiding amounted to HK$36,920,000, representing a year-to-year increase of 16.1%. Sales of OTC products including Haogan influenza drugs, Lijungai, Weikoujia and Kehao remained on a fast growth track, and the accumulated sales of OTC products amounted to HK$26,320,000 for the year, representing a year-to-year increase of 27%.

Pharmaceutical products other than intravenous infusion solutions of Shijiazhuang No. 4 Pharma recorded swift growth in sales in 2012, with the sales amounting to HK$179,529,000, representing a growth of 99.4%. Non-antibiotics products of Xi'an Lijun recorded overall sales of HK$384,446,000, representing an increase of 2.3% as compared to the same period last year.

2. REVIEW OF OPERATING RESULTS *(Continued)*

(2) Progress in new product research and platform construction

In 2012, Shijiazhuang No. 4 Pharma obtained 78 permits for production in total; Cefprozil Tablets and its method of preparation and Cefdinir Capsules and its method of preparation have obtained authorized patents; a total of 39 technical innovation items and a total of 30 innovation items for equipment energy-saving and consumption reduction were completed. At the same time, it has obtained 10 production permits of vertical PP infusion products with high market development value and production permit of sterilised water for injection with extensive clinical application value reflecting rich results achieved in the area of innovations. Shijiazhuang No. 4 Pharma was once again qualified as a new high technology enterprise of Hebei Province.

Last year, Xi'an Lijun has obtained 6 production permits for new products, including health food permit for Lingzhihongqu Capsules, production permit for Edaravone raw materials and injection, production permit for Nalmefene Hydrochloride raw materials and injection, and new drug certificate and production permit for Glipizide Tablets. The joint application with Sichuan University for the new drug for Alzheimer's disease also received the rolling support of China's Twelfth Five-year Plan Major New Drug Innovation Pre-clinical Research Project, and was listed in the Consolidated Major Platform for Innovative Drugs of Sichuan University. The construction and operation of the "Engineering Center for Innovative Drug Preparations of Shaanxi Province" has been inspected and assessed by the provincial Department of Science and Technology, and was assessed to be outstanding by the professionals. Xian Lijun was once again qualified as a new high technology enterprise of Shaanxi Province.

(3) Orderly roll-out of key construction projects

Shijiazhuang No. 4 made planning ahead in response to changes in market demands and assertively implemented them. The outstanding foresight and perspicacity of the technical reform have provided strong momentum for the development of the enterprise both at present and in the future. Key technical reform projects in Hebei Province, namely Shijiazhuang No. 4 Pharma's phase one project for modernized soft-packaging production line with an annual capacity of 500 million bottles (bags) of infusion solution preparations and auxiliary logistics and the Hydroxyethyl Starch bulk pharmaceuticals production project, have all commenced production and generated results. In particular, the project for modernized production line soft-packaging infusion solution and auxiliary logistics was construction in reference to certification standards and technical design of the European Union, which featured high starting-point, high efficiency and high quality, and its target capacity would double the production capacity for infusion solutions of the Group. The project has obtained China's new GMP certification at the beginning of 2012, ahead of China's new certification requirement on the production of sterile preparations and pharmaceuticals by two years, enabling the effective capture of market initiative. Since the commencement of operation, it has substantially enhanced the market competitiveness of the core products of soft-packaging infusion solutions, particularly the double-soft double hard tube soft-packaging infusion solution products, bringing along results to the Group. The phase two project for modernized soft-packaging production line featured the new addition of two specialized production lines for large-size (2,000ml, 1,000ml and 500ml) and 100ml soft-packaging infusion solutions have fully entered the stage of trial production, certification and pre-inspection, and have completed certification and commenced production in the second quarter of 2013.

2. REVIEW OF OPERATING RESULTS *(Continued)*

(3) Orderly roll-out of key construction projects *(Continued)*

To maintain the strong momentum of development of the infusion solutions and to fuel the sustainable development of the Group, the key project in Hebei Province, namely the relocation, upgrade and reconstruction project of the headquarters of Shijiazhuang No. 4 Pharma, has commenced construction in August 2012, which mainly included the production line for new model of preparations such as three-in-one PP new ampule preparation, and the new addition of an infusion solution production line with an annual production capacity of 800 million bottles (bags). It is anticipated that the 6 infusion solution production lines of phase one of project will commence trial production or certification in December 2013, bringing along an additional production capacity of 600 million bottles (bags) and more remarkable advantages of scale for the infusion solutions.

In 2012, Xi'an Lijun has focused on implementing the targeted capacity expansion and reconstruction for the two major preparations of freeze-dried powder injections and liquid injections, and has completed the project design. The freeze-dried powder injection project has completed demolition of buildings and structures at the legacy site of the construction project, relocation of water, electricity, air-conditioning pipes and network, commencement of foundation works, and negotiation and signing of major equipment contracts. The liquid injection project has also completed preparation works for reconstruction on legacy site.

3. DEVELOPMENT OUTLOOK FOR 2013

Looking forward into 2013, the operating situation of the pharmaceutical industry in the PRC is bound to remain stable, in which opportunities and challenges for enterprise development will coexist. The Group will leverage on its own advantages of scale and advantages of brand name to further enhance the product mix, and ride on the opportunities brought by market consolidation to continue its efforts in expanding and diversifying the product market, with the objective of achieving fast and greater growth in both the sales and profit.

3. DEVELOPMENT OUTLOOK FOR 2013 *(Continued)*

(1) Prioritization of product marketing and sales

1. Enhancing structural adjustments to achieve new breakthroughs in production and sales of infusion solutions

We will coordinate the domestic and overseas markets, reinforce the research and judgment of market and industrial policies, strive for inventories optimization and expansion of capacity; proactively overcome and assimilate the unfavorable influences of pricing and other policy factors, while on the prerequisites of enhancing the existing grasp and control on the market, to enhance the marketing and sales structure of the Group's core product infusion solution. At the same time, we will devise and implement strategies for differentiated marketing, reasonably adjust the tendering and bidding prices of pharmaceutical products, invigorate the sales of therapeutic infusion solution products such vertical, double soft tube and double hard tube infusion soft bag, rinsing solution soft bag, dialysis solution, sterilised water, Amino Acids solution and therapeutic solutions such as Ozagrel, Levofloxacin, Mannitol, Ambroxol and Bromhexine Hydrochloride through consolidating the establishment of the "three-in-one" marketing network encompassing business, end-user and distributors and leveraging on its own advantages in terms of technologies, quality and costs. Building on the advantage of self-produced raw materials, we will maximize the scale of production and sales of featured categories such as Sodium Chloride Hydroxyethyl Starch 40 Injection Solution, and simultaneously commit to the marketing and operation of strategic categories such as vertical soft infusion bag in order to continuously expand its market share in the North East China, North West China, Central China, East China and South China, comprehensively augment the profitability of the infusion solution products, diversify its product categories, and consolidate its brand name. Paralleled to increasing the weight of sales of high value-added products, we will strive to boost the annual production capacity of infusion solution by 30% or more in 2013 as compared to 2012 with the objectives of catering to the new round of market competition in the infusion solution industry, and achieving new breakthroughs in sales of the Group's core product of infusion solutions.

We will unswervingly adhere to the strategy of "going overseas", incessantly expand the export channel and scale of infusion solutions, proactively partake in international competition, forcefully commence international registration and certification of products and trademarks while stepping up the establishment of foreign trading team, flexibly commence foreign trade business, and ensure a growth rate of over 30% for the sales of foreign trading and processing products.

2. Striving for stable sales of antibiotic products

The antibiotics market will still be in a tough condition The Group has to react proactively. Firstly, we will thoroughly implement the "selling once the intended price is reached" approach in the entire sales process of Lijunsha, while at the same time accentuate the tendering and bidding of Lijunsha, expanding comprehensive commercial distribution, commencing incentive promotion for end-use procurements in depth, and cogently exploring end-user network. At the same time, we will commit to the sales expansion and volume stimulation for Lijunsha granule and capsule preparations to ensure stable sales of Lijunsha in the overall for the year.

3. DEVELOPMENT OUTLOOK FOR 2013 *(Continued)*

(1) Prioritization of product marketing and sales *(Continued)*

2. Striving for stable sales of antibiotic products (Continued)

Apart from consolidating and increasing the sales of freeze-dried powder injection of Paiqi series of products, we will continue to strive for sales volume stimulation of disperse tablets, capsules and dry mixed suspensions of the Paiqi oral intake series through leveraging on the branding effect. We will further focus on sales of Limaixian at drugstores aside from efforts to explore the end-use markets of hospitals, clinics and community clinics.

3. Ensuring swift growth in the sales of advantageous featured categories and general medicines

For Dobesilate, we will enlarge their marketing and sales team to build a nationwide promotion network; strengthen and widen promotion at hospitals and drugstores; fight for direct negotiation and supply related to end-use; and step up promotion to targeted customers. For Lixiding, we will concentrate our promotion and marketing efforts on small scale promotion activities in offices of hospitals and highlight the function and efficacy of Lixiding in the aspects of high blood pressure and cerebral hemorrhage in order to consolidate its position in clinical therapy.

General medicines will adhere to the path of focusing on products with relative advantageous features, aggressively adjusting product mix, promoting the sales of high margin products, emphasizing tender work and sales growth for tender winning products and expansion of end-use network, which will in turn assure sustained sales and profit growth. In respect of foreign trade of bulk pharmaceuticals, consolidation of existing market shares will be paralleled by every possible effort to boost the export of preparations with advantages.

We will focus on the "promotion and market distribution" of OTC products, expedite the business attraction layout across the nation, coordinate the interest distribution among segments of marketing and sales, compress the commercial space of OTC products, implement direct supply to end-users as much as possible, and devote every effort in enhancing the sales scale and growth.

3. DEVELOPMENT OUTLOOK FOR 2013 *(Continued)*

(2) Expedited new product research and development and approval of applications

Based on planning and implementation of new product and technology development with vision and strategy, Shijiazhuang No. 4 Pharma will strive to accelerate the application for approval procedure for products with market advantages such as 2,000ml and 500ml Compound Electrolyte soft-packaging and Glycine Rinsing Solution, coordinate and promote the application for approval, development and screening of over 180 categories under development and intended for development such as three-in-one PP ampule small liquid injection preparation, enlarge the reserve of new products and the construction effort for the engineering and technical center of injection solution at provincial level and the State enterprise technical center, proactively develop the State's major scientific projects, and to incessantly reinforce our core competitiveness. Shijiazhuang No. 4 Pharma will emphasize the research and application of policies in relation to scientific innovation and project construction in order to aggressively strive for government financial support.

Xi'an Lijun will strive for the completion of production application and research and development site inspection for the raw material and injection solution of Levomedetomidine Hydrochloride project, accelerate the production site inspection of Sodium Azulene Sulfonate raw materials. And it will closely follow up the progress of 2 technology evaluation items of Type 1.5 new drug by the National Pharmaceutical Approval Centre. Xi'an Lijun will also stringently comply with the opinion on research and development of Xi'an Lijun to expedite the research and development progress of 7 projects under development, including Type 1.1 New drug for curing Alzheimer's disease, Moxifloxacin Hydrochloride raw materials and tablet, and Ursodeoxycholic Acid Capsule.

(3) Acceleration of standardization, capacity expansion and reformation projects

Aimed at fully accelerating progress of the relocation, upgrade and reconstruction project of the headquarters, Shijiazhuang No. 4 Pharma will propel the progress with high starting-point, high efficiency and high quality through allocation of backbone forces, progress in accordance with a countdown schedule and exertion in accordance with the planned timetable. Setting off from the benchmark of "innovations and motivations, breakthroughs and transcendences", it will enhance its technical layout, equipment selection and production deployment centering on the core factors of quality, efficiency, energy-saving and environmental protection, in order to make its projects as the exemplar and ideal that will stay innovative for fifteen years, and ensure the phase one project will be ready for trial operation and certification by the end of 2013. Simultaneously, we will step up the progress of upgrade and reconstruction of the original infusion solution production line to achieve passing the new GMP certification of all infusion solution production lines of Shijiazhuang No. 4 Pharma at the earliest possible time, with the aim to effectively respond to changes in market and policies, and to maintain leading position of the infusion solutions in terms of production volume, quality and results and to further consolidate and enhance the leadership in the industry and the support to the Group of the infusion solution.

3. DEVELOPMENT OUTLOOK FOR 2013 *(Continued)*

(3) Acceleration of standardization, capacity expansion and reformation projects *(Continued)*

The two major projects, namely freeze-dried powder injections and liquid injections, of Xi'an Lijun will be accelerated in accordance with the overall progress requirements of passing the GMP on-site inspection by the end of 2013, and obtaining the new GMP certification by the end of March 2014. The expansion and reconstruction project of targeted capacity at 15 billion tablets will be timely commenced during the year in view of the actual situations. Project constructions will focus on the control, supervision, management and assessment of the design and construction processes, with a particular focus on the control of tendering and costs, in order to eradicate management shortfalls. All segments will actualize modernization, economization, and perspicacity. Building on the foundation of fulfilling the new GMP requirements, we will soundly implemented energy-saving and emission-reducing tasks, emphasize selection of new techniques, new technologies, new equipment and new materials and economization of power and energy, and stress the recycle of energy and combined use of equipment.

In conclusion, facing a tough market, the Group will adopt proactive responses to improve its level of sales and management with all means, enhance the quality and efficiency of operation, and in turn generate satisfactory return to its investors. We are highly confident in the future development of the Group.

Wu Qin
Chairman

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2012, the revenue of the Group amounted to approximately HK$2,430,684,000, representing an increase of 12.8% as compared with HK$2,155,215,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2012 is set out as follows:

	2012		2011		
	Sales HK$'000	**Percentage of sales %**	Sales HK$'000	Percentage of sales %	Change %
Intravenous Infusion Solution and others	**1,418,174**	**58.3**	1,036,463	48.1	36.8
(Including: Non-PVC Soft Bag Infusion Solution	**577,846**	**23.8**	366,459	17.0	57.7
PP Plastic Bottle Infusion Solution)	**442,021**	**18.2**	386,488	17.9	14.4
Antibiotics	**523,602**	**21.5**	629,355	29.2	(16.8)
(Including: Lijunsha	**261,422**	**10.8**	382,888	17.8	(31.7)
Paiqi)	**121,645**	**5.0**	112,456	5.2	8.2
Non-antibiotics finished medicines	**384,446**	**15.8**	375,973	17.4	2.3
(Including: Dobesilate	**89,165**	**3.7**	92,596	4.3	(3.7)
Lixiding	**36,920**	**1.5**	31,791	1.5	16.1
Sales of bulk pharmaceuticals	**103,421**	**4.3**	107,799	5.0	(4.1)
Others	**1,041**	**0.1**	5,625	0.3	(81.5)
Total	**2,430,684**	**100**	2,155,215	100	12.8

INTRAVENOUS INFUSION SOLUTION

The Group's intravenous infusion solution products were mainly manufactured and sold by Shijiazhuang No. 4 Pharma and there were 3 forms of packing in intravenous infusion products, namely Non-PVC Soft Bag, PP Plastic Bottle and Glasses Bottle.

Revenue of Shijiazhuang No. 4 Pharma for the year ended 31 December 2012 was HK$1,418,174,000 (2011: HK$1,036,463,000), representing a growth of 36.8% on a year-to-year basis. Among which, sales of intravenous infusion solution products contributed HK$1,238,645,000 (2011: HK$946,420,000), representing a growth of 30.9% on a year-to-year basis. Among which, sales of Non-PVC Soft Bag infusion solution was HK$577,846,000, representing 46.7% of the total sales of intravenous infusion solution and an increase of 57.7% as compared with last year; sales of PP Plastic Bottle infusion solution was HK$442,021,000, representing 35.7% of the total sales of intravenous infusion solution and an increase of 14.4% as compared with last year; sales of Glasses Bottle infusion solution was HK$218,778,000, representing 17.6% of the total sales of intravenous infusion solution and a increase of 13.1% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag infusion solution and PP Plastic Bottle infusion solution. It is believed that the intravenous infusion solution business will be one of the growth drivers of the Group in the coming years.

ANTIBIOTICS

In 2012, sales of Lijunsha decreased by 31.7% to HK$261,422,000 (2011: HK$382,888,000), sales of Paiqi increased by 8.2% to HK$121,645,000 (2011: HK$112,456,000) and sales of others antibiotics finished products increased by 4.9% to HK$140,535,000 (2011: HK$134,011,000). Overall sales of antibiotics finished products decreased by 16.8% to HK$523,602,000 (2011: HK$629,355,000) due to price control and volume control by the PRC government.

The reliance of the Group's sales on antibiotics products continued to decrease. Sales proportion of antibiotics products to total Group's sales decreased from 29.2% in 2011 to 21.5% in 2012 and sales proportion of Lijunsha accounted for only 10.8% of the total Group's sales in 2012, comparing to 17.8% in 2011.

NON-ANTIBIOTICS FINISHED PRODUCTS

Sales of the Group's non-antibiotics products increased by 2.3% to HK$384,446,000 (2011: HK$375,973,000). Among which, sales of Dobesilate decreased by 3.7% to HK$89,165,000 (2011: HK$92,596,000) while sales of Lixiding increased by 16.1% to HK$36,920,000 (2011: HK$31,791,000).

BULK PHARMACEUTICALS

Export sales of bulk pharmaceuticals amounted to HK$103,421,000 in 2012 (2011: HK$107,799,000), representing an decrease of 4.1%.

COST OF SALES

The Group's cost of sales increased by 12.6% from HK$1,241,525,000 for the year ended 31 December 2011 to HK$1,397,590,000 for the year ended 31 December 2012. The cost of direct materials, direct labour and other costs represented approximately 66.8%, 11.3% and 21.9% of the total cost of sales respectively for the year ended 31 December 2012 while their comparative percentages for 2011 were 72.2%, 10.0% and 17.8% respectively.

GROSS PROFIT MARGIN

Gross profit of the Group in 2012 amounted to HK$1,033,094,000 (2011: HK$913,690,000), representing a gross profit margin of 42.5%, which increased by 0.1 percentage point comparing to that of last year (42.4%).

SELLING AND MARKETING COSTS

For the year ended 31 December 2012, selling and marketing costs amounted to approximately HK$410,798,000 (2011: HK$441,342,000), which mainly consisted of advertising expenses of approximately HK$64,327,000 (2011: HK$63,175,000), sales commission of approximately HK$114,298,000 (2011: HK$150,382,000), salaries expenses of sales and marketing staff of approximately HK$51,509,000 (2011: HK$64,737,000) and transportation cost of approximately HK$114,185,000 (2011: HK$96,552,000).

The decrease of 6.9% in selling and marketing costs in 2012 as compared with that of 2011 was mainly attributable to decreased sales commission due to decreased sales of antibiotics finished products.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to approximately HK$290,201,000 (2011: HK$243,231,000) for the year ended 31 December 2012 which mainly comprised salaries expenses for the administrative staff of approximately HK$113,800,000 (2011: HK$91,454,000), depreciation and amortisation of approximately HK$55,048,000 (2011: HK$54,050,000) and an expense for the grant of share options of approximately HK$15,530,000 (2011: Nil).

The increase of 19.3% in general and administrative expenses from 2011 to that of 2012 was mainly attributable to expansion of the Group's operations, increase in salaries expenses for the administrative staff and an expense for the grant of share options.

OPERATING PROFIT

The Group's operating profit in 2012, amounted to HK$372,216,000 (2011: HK$13,146,000) with its operating profit margin (defined as operating profit divided by total sales) increased to 15.3% (2011: 0.6%). The operating profit and operating profit margin in 2011 were affected by the impairment loss on the goodwill in 2011.

FINANCE COSTS

The finance costs in 2012 increased by 104% to HK$36,954,000 (2011: HK$18,111,000). During the year, interest expense on bank borrowings amounted to HK$32,890,000 (2011: HK$22,072,000) and discount of bills receivables amounted to HK$1,248,000 (2011: HK$343,000). The increase in finance costs as compared to that of 2011 was mainly due to the increases in bank loan and loan interest rate.

INCOME TAX EXPENSE

Both Xi'an Lijun Pharmaceutical Co., Ltd ("Xi'an Lijun") and Shijiazhuang No. 4 Pharmaceutical Co., Ltd ("Shijiazhuang No. 4 Pharma") are qualified as new high technology enterprises and entitled to a 15% preferential Mainland China Enterprise Income Tax ("EIT") rate for the years from 2012 to 2014. For the year ended 31 December 2012, the income tax expense amounted to HK$55,513,000 (2011: HK$39,183,000).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Profit attributable to equity holders of the Company for the year amounted to HK$281,003,000 (2011: loss attributable to equity holders of the Company HK$41,401,000) with a net profit margin (profit attributable to equity holders of the Company for the year divided by total sales) of 11.6% (2011: net loss).

LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2012, the cash and cash equivalents aggregated to HK$411,783,000 (2011: HK$257,980,000), comprising HK$409,692,000 (2011: HK$204,418,000) of cash and cash equivalents denominated in Renminbi ("RMB"), HK$1,128,000 (2011: HK$50,688,000) in Hong Kong dollars and HK$963,000 (2011: HK$2,874,000) in other currencies.

The carrying amounts of the borrowings amounting to HK$828,508,000 (2011: HK$416,615,000) as at 31 December 2012, comprising HK$616,637,000 (2011: HK$265,203,000) of borrowings denominated in RMB, HK$88,142,000 (2011: HK$151,412,000) in Hong Kong dollars and HK$123,729,000 (2011: Nil) in other currencies.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital) increased from 6.5% as at 31 December 2011 to 14.4% as at 31 December 2012.

Current ratio (defined as current assets divided by current liabilities) increased from 1.42 as at 31 December 2011 to 1.55 as at 31 December 2012.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB and Hong Kong dollars. The Group is of the opinion that its exposure to foreign exchange rate risk is limited. Hence, no financial instrument for hedging was employed. The Group is closely monitoring the financial market and would consider appropriate measures if required.

PLEDGE OF ASSETS

As at 31 December 2012, the net book amount of the Group's land use right of HK$48,724,000 (2011: HK$50,025,000) and the net book amount of the Group's buildings, plant and machineries of HK$249,166,000 (2011: HK$246,470,000) were pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities.

EXCHANGE RATE

As at 2012 and 2011, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2011	0.85093
31 December 2011	0.81070
31 December 2012	0.81085

DIRECTORS

Executive directors

Mr. Wu Qin (吳秦), aged 60, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Wu was the chairman of Rejoy Group Limited Liability Company ("Rejoy Group") from October 1998 to August 2011. He has also been the chairman of Xi'an Lijun since November 1999. He is also a director of Prime United Industries Limited ("Prime United"), a controlling shareholder of the Company. Mr. Wu was the general manager of Xi'an Lijun. Mr. Wu has over 30 years of experience in the pharmaceutical industry. He is particularly experienced in the business planning, marketing and enterprise management for pharmaceutical brands. In addition to setting up a number of unique management models, he has also achieved great success in establishing the "Lijunsha" brand, which is one of the prominent "Well-known Trademark in China" in the pharmaceutical industry in the PRC. Mr. Wu graduated from the Open University of Hong Kong with a degree of Master in Business Administration in 2002. He was a deputy to the 10th Standing Committee of the National People's Congress, and was awarded the National Labour Model Award (全國勞動模範), National May First Labour Meda (全國五一勞動獎章), International Chinese Commercial Leaders Award (世界華商領袖功勛獎), Outstanding Chinese Entrepreneurs Award (中國傑出企業領袖) and 100 Most Innovative Chinese Characters Award (中國改革100新銳人物). He was also an executive director of Pharmaceutical Administration Association/China Pharmaceutical Association. He also enjoys special subsidy for the year 2002 granted by the State Council of the PRC. He is currently a vice president of Shaanxi Industrial and Economic Federation and Deputy Chairman of the Shaanxi Association of Commerce of the China International Association of Commerce. He is also a senior economist accredited by The Ministry of Personnel of China, the Deputy Chairman of Law and Social Order Committee of the Standing Committee of Shaanxi Province People's Congress and member of Strategies & Advisory Committee of Shaanxi Province.

Mr. Qu Jiguang (曲繼廣), aged 58, an executive Director, the vice-chairman and the chief executive officer of the Company. Mr. Qu is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman and general manager of Shijiazhuang No. 4 Pharma, a wholly owned subsidiary of New Orient, the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has nearly 30 years of experience in pharmaceutical industry. He is currently Representative of Hebei Provincial People's Congress (河北省人大代表), Vice-Chairman of China Pharmaceutical Industry Association (中國化學製藥協會副會長), Vice-Chairman of Hebei Provincial Federation of Industry and Commerce (河北省工商聯副主席), Vice-Chairman of Hebei Provincial Association of Enterprise (河北省企業聯合會副會長), Vice-Chairman of Hebei Pharmaceutical Industry Association (河北省醫藥行業協會副會長).

DIRECTORS *(Continued)*

Executive directors *(Continued)*

Mr. Xie Yunfeng（謝雲峰）, aged 58, an executive Director and is responsible for overall management in daily administration of Xi'an Lijun. Mr. Xie has been a director and the deputy general manager of Xi'an Lijun since November 1999. He was a director of Rejoy Group from August 1999 to May 2004. He has been the chairman of Rejoy Group Limited Liability Company since August 2011. Mr. Xie joined the Group since its establishment in November 1999 and has nearly 30 years of experience in pharmaceutical production. He is also a director of Prime United. Mr. Xie graduated from Party School of the CPC Central Committee majoring in law in 2001. Mr. Xie was awarded the Labour Model of Shaanxi Province and the second session of the honorary title of Outstanding Young Entrepreneurs of Xi'an City.

Mr. Wang Xianjun（王憲軍）, aged 50, an executive director. Mr. Wang has over 20 years' experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang was also an independent non-executive director of Greater China Holding Limited from July 2002 to August 2005, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Wang graduated from Beijing Chemical Engineering College with a Master's degree in Engineering in 1987. He joined the Group in July 2004 and was the deputy general manager of Xi'an Lijun from July 2004 to December 2004. He was appointed as general manager of the Company in December 2004.

Mr. Duan Wei（段偉）, aged 55, an executive Director and is responsible for sales and human resources functions of Shijiazhuang No. 4 Pharma. He joined No. 1 Pharma as a supervisor in March 1984 and was later promoted as the supervisor of Shijiazhuang Pharmaceutical Group. Mr. Duan has been an executive director and the vice general manager of Shijiazhuang No. 4 Pharma since March 1999 and he has also been an executive director of New Orient, CPCL and CMP. Mr. Duan graduated from Hebei Central Radio and TV University（河北廣播電視大學）and has ample experiences in sales management.

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing (王亦兵), aged 50, an independent non-executive Director. He graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). He is currently the executive vice-president of Hebei Province Pharmaceutical Industrial Chamber of Commerce (河北省醫藥行業協會). Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處，藥品安全監管處). Mr. Wang possesses about 25 years experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun (梁創順), aged 47, an independent non-executive Director. He is also an independent non-executive director of China National Materials Company Limited (Stock code: 1893), China Metal Recycling (Holdings) Limited (Stock code: 773) and China Communications Construction Company Limited (Stock code: 1800), companies listed on the Stock Exchange. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo, Kwan, Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance.

Mr. Chow Kwok Wai (周國偉), aged 46, was appointed as an independent non-executive Director of the Company on 16 October 2005. Mr. Chow has worked in Pricewaterhouse, which is now known as PricewaterhouseCoopers and accumulated valuable audit experience there. Mr. Chow received his Bachelor of Social Sciences Degree from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr. Chow is also a registered Certified Tax Adviser (註冊稅務師) of the TIHK effective from 7 September 2010. He has over 20 years' of experience in accounting, financial management and corporate finance. Mr. Chow is currently an executive director, a Deputy General Manager and the Qualified Accountant of Silver Grant International Industries Limited (Stock code: 171), a non-executive director of Cinda International Holdings Limited (Stock code: 111) and an independent non-executive director of Youyuan International Holdings Limited (Stock code: 2268), whose shares are listed on the Main Board of the Stock Exchange.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chow Hing Yeung (周興揚), aged 34, is the qualified accountant, company secretary and chief financial officer of the Company. Mr. Chow graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration. He has more than ten years of experience in areas of auditing, accounting and financial management. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") present their report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 9 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2012 is set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 39.

BONUS ISSUE OF SHARES

During the year, the Board proposed a bonus issue on the basis of one bonus share for every five existing shares held (the "Bonus Issue") to the shareholders in recognition of their continual support and the Bonus Issue was approved by the shareholders at the extraordinary general meeting held on 20 September 2012 (the "EGM"). On the basis of 2,441,604,488 existing shares in issue as at 28 September 2012, a total of 488,320,897 bonus shares were issued on 16 October 2012 pursuant to the Bonus Issue, and HK$9,766,418 standing to the credit of the share premium account of the Company was capitalized for paying up the bonus shares in full at par.

DIVIDENDS

An interim dividend of HK$0.02 per share before the Bonus Issue was declared on 21 August 2012 and paid on 3 October 2012. Bonus shares issued on 16 October 2012 pursuant to the Bonus Shares were not entitled to the interim dividend.

The Directors recommend the payment of a final dividend of HK$0.02 per share which, together with the interim dividend of HK$0.017 per share adjusted for the Bonus Issue, will result in total dividends of HK$0.037 per share for the year ended 31 December 2012 (2011: HK$0.033 per share adjusted for the Bonus Issue). The final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 17 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in note 18 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company had distributable reserves of approximately HK$1,262,730,000 (2011: HK$1,358,987,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK$1,262,730,000 (2011: HK$1,351,525,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 3,210,000 shares in March, April and June 2012 which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2012.

During the year, the Company acquired an aggregate of 3,210,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (including transaction costs) of HK$5,519,607 with a view to benefit shareholders as a whole in enhancing the net assets value and earnings per share of the Company. All of the purchased shares were subsequently cancelled on 30 April 2012 and 29 June 2012.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate consideration *HK$*
28 March 2012	620,000	1.61	1.58	993,367
29 March 2012	620,000	1.61	1.57	996,676
11 April 2012	330,000	1.60	1.56	528,898
4 June 2012	1,640,000	1.84	1.78	3,000,666
	3,210,000			5,519,607

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Old Share Option Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares. The share options are exercisable at any time during a period of not more than 10 years from the date of the offer for grant of options, subject to the terms and conditions of Old Share Option Scheme and any conditions of grant as may be stipulated by the Board.

As at 7 August 2008, the Company granted 100,000,000 share options under the Old Share Option Scheme, representing about 4.93% of the issued share capital as at the date immediately before the options were granted to directors and senior management of the Group. The exercise price was HK$0.7. As at 4 October 2010, all of the 100,000,000 share options granted were exercised.

As at 3 May 2012, the Company granted 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the Bonus Issue on 16 October 2012) under Old Share Option Scheme, representing about 1.64% of the issued share capital as at the date immediately before the options were granted to directors of the Group. The exercise price was HK$1.78 (being adjusted to HK$1.48 as a result of the Bonus Issue on 16 October 2012).

As at 31 December 2012, all of the 48,000,000 share options granted under Old Share Option Scheme remained outstanding.

During the year, the Board proposed the termination of Old Share Option Scheme and the adoption of the existing share option scheme ("Existing Share Option Scheme") which were approved by an ordinary resolution passed by the shareholders at the EGM held on 20 September 2012. The operation of Old Share Option Scheme was terminated such that no further share option could thereafter be offered under Old Share Option Scheme but in all other respects the provisions of Old Share Option Scheme shall remain in full force and effect.

Existing Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Existing Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Existing Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Existing Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Existing Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Existing Share Option Scheme and any conditions of grant as may be stipulated by the Board.

SHARE OPTION SCHEME *(Continued)*

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Existing Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Existing Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the"Scheme Mandate"). The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Existing Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Existing Share Option Scheme.

As at 31 December 2012, no option has been granted under Existing Share Option Scheme since its adoption.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin
Mr. Qu Jiguang
Mr. Xie Yunfeng
Mr. Wang Xianjun
Mr. Duan Wei
Mr. Huang Chao (resigned on 17 December 2012)
Mr. Bao Leyuan (resigned on 17 December 2012)
Ms. Gao Shuping (resigned on 17 December 2012)
Ms. Zhang Guifu (resigned on 5 April 2012)

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, at every annual general meeting one-third of the directors for the time being (or if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and every retiring director shall be eligible for re-election. Accordingly, Mr. Wu Qin, Mr. Qu Jiguang and Mr. Wang Yibing will retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 15 to 17.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions", no contracts of significance in relation to the Group's business to which the Company or any of its 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.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2012, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Qin	Beneficial owner *(Note 1)*	42,504,000	1.45%
Mr. Qu Jiguang	Beneficial owner *(Note 2)*	24,000,000	0.82%
	Interest in a controlled corporation *(Note 3)*	685,800,000	23.41%

Notes:

1. Among the 42,504,000 shares, 24,000,000 shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Wu Qin on 3 May 2012 under the Old Share Option Scheme.

2. These shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Qu Jiguang on 3 May 2012 under the Old Share Option Scheme.

3. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2012, the Company had been notified of the following interests, being 5% or more in the issued share capital of the Company.

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Prime United Industries Limited *(Note 1)*	Beneficial owner *(Note 2)*	769,986,000	26.28%
CPCL *(Note 3)*	Beneficial owner *(Note 2)*	685,800,000	23.41%
Mr. Qu Jiguang	Beneficial owner *(Note 4)*	24,000,000	0.82%
	Interest in a controlled corporation *(Note 3)*	685,800,000	23.41%
Sichuan Kelun Pharmaceutical Co., Ltd.	Beneficial owner *(Note 2)*	360,000,000	12.29%

Notes:

1. Prime United Industries Limited ("Prime United") is held as to about 8.86% by Mr. Wu Qin, an executive Director, as to about 4% by Mr. Xie Yunfeng, an executive Director, as to about 2.41% by Mr. Huang Chao, a director of Xi'an Lijun Pharmaceutical Co., Ltd. ("Xi'an Lijun") and as to about 84.73% by Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao who jointly hold such shares on trust for approximately 3,000 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group Limited Liability Company ("Rejoy Group"). Mr. Wu Qin, Mr. Xie Yunfeng and Mr. Huang Chao are also directors of Prime United Industries Limited. Xi'an Lijun is a subsidiary of the Company. Rejoy Group is a company established in the PRC with limited liability and 100% owned by State-owned Assets Supervision and Administration Commission of the People's Government of Xi'an.

2. Among the 769,986,000 shares and the 685,800,000 shares held by Prime United and CPCL respectively, Prime United and CPCL have agreed to sell to Sichuan Kelun Pharmaceutical Co., Ltd. 180,000,000 shares and 180,000,000 shares of the Company respectively (the "Disposal") pursuant to a conditional sale and purchase agreement entered into and announced on 28 December 2012. As at 31 December 2012 and the latest practicable date prior to the issue of this annual report, being 5 April 2013, the Disposal of 360,000,000 shares of the Company has not been completed.

3. These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by 39 other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

4. These shares represent the underlying interest in shares of the Company pursuant to options granted to Mr. Qu Jiguang on 3 May 2012 under the Old Share Option Scheme.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 4,700 employees, most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group.

The total remuneration cost incurred by the Group for year ended 31 December 2012 was approximately HK$338,532,000 (2011: HK$280,855,000). Details of the remuneration of the Directors for the year ended 31 December 2012 are set out in note 31 to the financial statements.

RETIREMENT BENEFIT PLANS

Details of retirement benefit plans of the Group are set out in note 30 to the financial statements. Expenses incurred by the Group in connection with the retirement benefit plans were approximately HK$36,057,000 for the year ended 31 December 2012 (2011: HK$24,772,000).

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements also fell under the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transaction

(1) Distribution of the Group's products by Rejoy Technology Group (Xi'an Rejoy Technology Investment Co., Ltd. and its subsidiaries, including but not limited to Xi'an Rejoy Packaging Materials Co., Ltd.)

Xi'an Rejoy Technology Investment Co. Ltd., the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United Industries Limited, the controlling shareholder of the Company, and is accordingly a connected person of the Company.

Pursuant to the Master Sale Agreement dated 18 December 2009, the Group agreed to sell and the Rejoy Technology Group agreed to purchase and distribute products of the Group for a term of three years commencing from 1 January 2010 and ending on 31 December 2012. The Rejoy Technology Group purchases products from the Group and distributes such products to other distributors and end customers. The prices and terms of the Master Sale Agreement are no less favourable to the Group than prices and terms available to independent third parties.

There was no sales of Group products to the Rejoy Technology Group for both years ended 31 December 2012 and 31 December 2011.

CONNECTED TRANSACTIONS *(Continued)*

(2) Purchasing of raw materials and packaging materials from Rejoy Technology Group

Pursuant to the previous Master Purchase Agreement dated 18 December 2009, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group for a term of three years commencing from 1 January 2010 and ending on 31 December 2012. The prices and terms of the previous Master Purchase Agreement are no less favourable to the Group than prices and terms available from independent third parties.

For the year ended 31 December 2012, the total purchase of raw materials and packaging materials from the Rejoy Technology Group was RMB4,830,000 (2011: RMB2,473,000), which did not exceed the annual cap of RMB5,000,000 (2011: RMB5,000,000) prescribed for the year ended 31 December 2012 as disclosed in the announcement dated 21 December 2009.

As the transaction contemplated under the previous Master Purchase Agreement will continue, the Company entered into the Master Purchase Agreement on 18 December 2012 with the Rejoy Technology Group. Pursuant to the Master Purchase Agreement, the Rejoy Technology Group agrees to sell and the Group agrees to purchase raw materials and packaging materials from the Rejoy Technology Group for the production and packaging of the products of the Group for a term of three years commencing from 1 January 2013 and ending on 31 December 2015, renewable upon the agreement by the contracting parties. The Group pays the Rejoy Technology Group for the raw materials and packaging materials at prices no less favourable than those paid to independent third parties and on terms no less favourable than those the Group can obtain from other comparable independent third parties, subject to an annual cap of RMB8,000,000 for each of the three financial years ending 31 December 2015, as disclosed in the announcement dated 18 December 2012.

The independent non-executive Directors have confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to The Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date prior to the issue of this annual report, being 28 March 2013, and at all times during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's corporate governance practices is set out in the Corporate Governance Report on pages 28 to 33.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of the Company will be held at 2:00 p.m. on 24 May 2013 at Rooms 2101-02, 21st Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 21 May 2013.

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 29 May 2013 which is the Record Date for the proposed final dividend.

On behalf of the Board

Wu Qin
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (formerly the "Code on Corporate Governance Practices") (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") including those revised code provisions which became effective on 1 April 2012. During the year, the Company has complied with all applicable provisions of CG Code for their respective applicable periods.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

As at 31 December 2012, the Board comprises five executive Directors, namely Mr. Wu Qin (Chairman), Mr. Qu Jiguang, Mr. Xie Yunfeng, Mr. Wang Xianjun and Mr. Duan Wei, and three independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

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 and considers the independent non-executive Directors to be independent.

During the year, training organised by qualified professionals has been attended by all Directors covering a range of topics including Directors' duties and updates on the Listing Rules. A record of the training are kept and updated by the Company Secretary of the Company.

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

BOARD OF DIRECTORS *(Continued)*

During the year ended 31 December 2012, a total of four board meetings, one annual general meeting ("AGM") and one extraordinary general meeting ("EGM") were held and the attendance of each Director was as follows:

	Number of meetings attended/held		
Name of Director	**Board meetings**	**AGM**	**EGM**
Executive Directors			
Mr. Wu Qin *(Chairman)*	4/4	1/1	1/1
Mr. Qu Jiguang	4/4	0/1	0/1
Mr. Xie Yunfeng	4/4	0/1	0/1
Mr. Wang Xianjun	4/4	1/1	1/1
Mr. Duan Wei	4/4	0/1	0/1
Independent non-executive Directors			
Mr. Wang Yibing	4/4	0/1	0/1
Mr. Leung Chong Shun	4/4	0/1	0/1
Mr. Chow Kwok Wai	4/4	1/1	0/1

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that Directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner.

The Board appointed Mr. Qu Jiguang as the Chief Executive Officer, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Board also comprises independent non-executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

All Directors including independent non-executive Directors are appointed for a specific term which may be extended as each Director and the Company may agree. The Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors including independent non-executive Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years.

NOMINATION COMMITTEE

The Board established the Nomination Committee on 23 March 2012. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of the Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the candidates' qualification, knowledge and experience in the relevant areas.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2012. Issues including the structure, size and composition of the Board were discussed and no change or nomination was recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Wang Yibing	1/1
Mr. Leung Chong Shun	1/1
Mr. Chow Kwok Wai	1/1

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of the Stock Exchange of Hong Kong Limited.

Remuneration Committee is responsible for formulation, review and recommending to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senor management and his/her contribution to the Group, making recommendations to the Board on the remuneration packages with adoption of the approach under B.1.2(c)(ii) of CG code and approving the terms of executive Directors' service agreements.

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. Two meetings had been held during the year ended 31 December 2012. During the meetings, remuneration paid to the Directors and review of remuneration policy have been discussed and recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2
Mr. Chow Kwok Wai	2/2

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK$180,000 for each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2012 are set out in the page 98 of the Annual Report.

AUDIT COMMITTEE

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of the Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The major functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2012. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Chow Kwok Wai	2/2
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2

AUDIT COMMITTEE *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

(a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;

(b) discuss the audit approach and audit issues with the external auditor at least twice a year;

(c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and

(d) oversee the Company's financial reporting system and internal control procedures.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in pages 34 to 35 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

The Board is responsible for reviewing the effectiveness of the internal control system of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions. The Board is committed to implementing an effective and sound internal control system to provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the Group's assets. During the year, a review of the effectiveness of the internal control system of the Group which covered all material controls was conducted. The report and findings of the review are taken into consideration by the Audit Committee in making its recommendation to the Board for approval of the audited consolidated financial statements of the Group for the year.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2012 amounted to approximately HK$3,600,000 and HK$22,000 respectively.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 2101-02, 21st Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at the EGM varies according to the nature of the proposal, as follows:

– At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

– At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in the EGM.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at the EGM. The requirements and procedures are set out above.

(3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

INVESTOR RELATIONS

Shareholder communication policy was adopted by the Board on 23 March 2012. The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders and the Company's website www.lijun.com.hk.

During the year, there was no change in the Company's constitutional documents.

pwc 羅兵咸永道

To the shareholders of
Lijun International Pharmaceutical (Holding) Co., Ltd.
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 105, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of 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 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.

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羅兵咸永道

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 disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2013

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 HK$'000	As at 31 December 2011 HK$'000
ASSETS			
Non-current assets			
Land use rights	6	**239,241**	220,433
Property, plant and equipment	7	**1,630,224**	1,444,819
Intangible assets	8	**310,964**	316,896
Deferred income tax assets	10	**21,175**	21,526
Available-for-sale financial assets	11	**159**	159
		2,201,763	2,003,833
Current assets			
Inventories	12	**398,758**	342,318
Trade and bills receivables	13	**826,943**	704,666
Financial assets at fair value through profit or loss	14	**–**	2,367
Prepayments, deposits and other receivables	15	**152,191**	128,933
Pledged bank deposits	16	**–**	4,443
Cash and cash equivalents	16	**411,783**	257,980
		1,789,675	1,440,707
Total assets		**3,991,438**	3,444,540
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**65,405**	55,703
Reserves	18		
– Proposed final dividend	32	**58,599**	48,896
– Others		**2,364,488**	2,191,078
		2,488,492	2,295,677
Non-controlling interests		**604**	616
Total equity		**2,489,096**	2,296,293

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	As at 31 December 2012 HK$'000	As at 31 December 2011 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	19	**306,034**	86,822
Deferred income tax liabilities	10	**23,783**	25,344
Deferred revenue	20	**7,795**	10,608
Post-employment benefit obligation	21	**10,925**	10,548
		348,537	133,322
Current liabilities			
Borrowings	19	**522,474**	329,793
Trade and bills payables	22	**250,575**	259,986
Advanced receipts from customers		**25,996**	17,271
Dividends payable		**–**	6,050
Accruals and other payables	23	**330,660**	393,338
Income tax payable		**24,100**	8,487
		1,153,805	1,014,925
Total liabilities		**1,502,342**	1,148,247
Total equity and liabilities		**3,991,438**	3,444,540
Net current assets		**635,870**	425,782
Total assets less current liabilities		**2,837,633**	2,429,615

The notes on pages 42 to 105 are an integral part of these consolidated financial statements.

The financial statements on page 36 to 105 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

WU QIN
Director

QU JIGUANG
Director

BALANCE SHEET OF THE COMPANY

As at 31 December 2012

	Note	As at 31 December 2012 HK$'000	As at 31 December 2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**997**	1,211
Investments in subsidiaries and advance to a subsidiary	9	**1,264,848**	1,264,848
		1,265,845	1,266,059
Current assets			
Dividends receivable		**198,550**	193,697
Prepayments, deposits and other receivables	15	**1,443**	1,396
Amounts due from subsidiaries	9	**50,679**	28,259
Cash and cash equivalents	16	**851**	112,729
		251,523	336,081
Total assets		**1,517,368**	1,602,140
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**65,405**	55,703
Reserves	18		
– Proposed final dividend	32	**58,599**	48,896
– Others		**1,393,364**	1,483,794
Total equity		**1,517,368**	1,588,393
LIABILITIES			
Current liabilities			
Borrowings	19	**–**	12,500
Accruals and other payables	23	**–**	1,247
		–	13,747
Total liabilities		**–**	13,747
Total equity and liabilities		**1,517,368**	1,602,140
Net current assets		**251,523**	322,334
Total assets less current liabilities		**1,517,368**	1,588,393

The notes on pages 42 to 105 are an integral part of these financial statements.

The financial statements on page 36 to 105 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

WU QIN **QU JIGUANG**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	24	**2,430,684**	2,155,215
Cost of sales	26	**(1,397,590)**	(1,241,525)
Gross profit		**1,033,094**	913,690
Selling and marketing costs	26	**(410,798)**	(441,342)
General and administrative expenses	26	**(290,201)**	(243,231)
Impairment loss of goodwill	8	**–**	(223,552)
Other gains – net	25	**40,121**	7,581
Operating profit		**372,216**	13,146
Finance income	27	**1,242**	2,771
Finance costs	27	**(36,954)**	(18,111)
Finance costs – net		**(35,712)**	(15,340)
Profit/(loss) before income tax		**336,504**	(2,194)
Income tax expense	28	**(55,513)**	(39,183)
Profit/(loss) for the year		**280,991**	(41,377)
Other comprehensive income:			
Currency translation differences		**(499)**	86,639
Total comprehensive income for the year		**280,492**	45,262
Profit/(loss) attributable to:			
Equity holders of the Company		**281,003**	(41,401)
Non-controlling interests		**(12)**	24
		280,991	(41,377)
Total comprehensive income attributable to:			
Equity holders of the Company		**280,504**	45,195
Non-controlling interests		**(12)**	67
		280,492	45,262
		2012 **HK$**	2011 HK$ (Restated)
Earnings/(losses) per share for profit/(loss) attributable to the equity holders of the Company			
– Basic	31	**0.0959**	(0.0141)
– Diluted	31	**0.0958**	(0.0141)

The notes on pages 42 to 105 are an integral part of these consolidated financial statements.

	Note	2012 HK$'000	2011 HK$'000
Dividends (paid and proposed)	32	**107,431**	97,792

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2011	55,905	2,299,214	2,355,119	1,178	2,356,297
Comprehensive income					
Loss for the year	–	(41,401)	(41,401)	24	(41,377)
Other comprehensive income					
Currency translation differences	–	86,596	86,596	43	86,639
Total comprehensive income	–	45,195	45,195	67	45,262
Transactions with equity holders					
Purchase of treasury shares	–	(6,764)	(6,764)	–	(6,764)
Cancellation of treasury shares	(202)	202	–	–	–
Dividends paid to equity holders of the Company	–	(97,873)	(97,873)	–	(97,873)
Disposal of a subsidiary	–	–	–	(1,231)	(1,231)
Contribution from non-controlling interests	–	–	–	602	602
Total transactions with equity holders	(202)	(104,435)	(104,637)	(629)	(105,266)
Balance at 31 December 2011	55,703	2,239,974	2,295,677	616	2,296,293
Balance at 1 January 2012	55,703	2,239,974	2,295,677	616	2,296,293
Comprehensive income					
Profit for the year	–	281,003	281,003	(12)	280,991
Other comprehensive income					
Currency translation differences	–	(499)	(499)	–	(499)
Total comprehensive income	–	280,504	280,504	(12)	280,492
Transactions with equity holders					
Purchase of treasury shares	–	(5,522)	(5,522)	–	(5,522)
Cancellation of treasury shares	(64)	64	–	–	–
Dividends paid to equity holders of the Company	–	(97,697)	(97,697)	–	(97,697)
Issuance of bonus shares	9,766	(9,766)	–	–	–
Share option scheme — Value of employee services	–	15,530	15,530	–	15,530
Total transactions with equity holders	9,702	(97,391)	(87,689)	–	(87,689)
Balance at 31 December 2012	65,405	2,423,087	2,488,492	604	2,489,096

The notes on pages 42 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Cash generated from operations	*33(a)*	**316,063**	244,422
Interest paid		**(32,890)**	(22,414)
Income tax paid		**(41,105)**	(50,510)
Net cash generated from operating activities		**242,068**	171,498
Cash flows from investing activities			
Purchase of land use rights		**(24,668)**	–
Purchase of property, plant and equipment		**(382,772)**	(419,813)
Purchase of intangible assets		**(3,165)**	(3,946)
Proceeds from disposals of property, plant and equipment	*33(b)*	**13,514**	14,166
Purchase of financial assets at fair value through profit or loss		**(97,688)**	(181,534)
Proceeds from sale of financial assets at fair value through profit or loss		**99,476**	175,066
Proceeds from disposals of a subsidiary		**–**	2,167
Interest received		**1,242**	2,771
Net cash used in investing activities		**(394,061)**	(411,123)
Cash flows from financing activities			
Purchase of treasury shares		**(5,522)**	(6,764)
Proceeds from bank borrowings		**851,427**	493,985
Repayments of bank borrowings		**(440,765)**	(525,472)
Dividends paid to equity shareholders of the Company		**(103,747)**	(91,823)
Decrease of pledged bank deposits		**4,443**	26,088
Net cash generated from/(used in) financing activities		**305,836**	(103,986)
Net increase/(decrease) in cash and cash equivalents		**153,843**	(343,611)
Cash and cash equivalents at beginning of the year		**257,980**	598,911
Effect of foreign exchange rate changes on cash and cash equivalents		**(40)**	2,680
Cash and cash equivalents at end of the year		**411,783**	257,980

The notes on pages 42 to 105 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Lijun International Pharmaceutical (Holding) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are engaged in the research, development, manufacturing and selling of a wide range of finished medicines and bulk pharmaceutical products to hospitals and distributors. The Group has manufacturing plants in Hebei Province and Shaanxi Province, the People's Republic of China ("PRC" or the "Mainland China"), and sells to customers mainly in the Mainland China.

The Company is an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2005.

These consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 28 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

- The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendments do not result in a material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

		Effective date
IAS32 (Amendments)	Financial Instruments: Presentation	1 January 2013
HKFRS 7 (Amendments)	Financial Instruments: Disclosures	1 January 2013
HKFRS 9	Financial Instruments: Classification and measurement	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HKAS 1 (Amendments)	Presentation of financial statements	1 July 2012
HKAS 19 (Amendments)	Employee benefits	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
Annual improvements 2011		1 January 2013

None of these new and amended standards is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transaction – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's functional and the Group's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within consolidated 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

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

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.5 Property, plant and equipment

Property, plant and equipments are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

–	Buildings	10-40 years
–	Plant and machinery	5-18 years
–	Vehicles	5-10 years
–	Furniture, fixtures and office equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net', in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Land use rights

All land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to the consolidated income statement on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is changed in the consolidated income statement.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

– Trademarks	50 years
– Patents	5-10 years

(c) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets *(continued)*

(d) Computer softwares

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised over their estimated useful lives (5-10 years).

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', other receivables in the 'Prepayments, deposits and other receivables', 'pledged bank deposits', and 'cash and cash equivalents' in the balance sheet (Note 2.13 and 2.14 respectively).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

2.9.1 Classification *(continued)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale and carried at fair value are recognised in other comprehensive income.

When financial assets classified as available-for-sale carried at fair value are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from sales of financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of 'other gains – net'. Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other gains – net' when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Impairment of financial assets *(continued)*

(b) Assets classified as available for sale carried at fair value

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement.

(c) Available-for-sale financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Borrowing costs

General and specific 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.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

(i) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Employee benefits *(continued)*

(a) ***Pension obligations*** *(continued)*

(i) *Defined contribution plan (continued)*

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,250 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

(ii) *Defined benefit plan*

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to statement of comprehensive income in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

(ii) Defined benefit plan (continued)

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Past service cost is recognised as an expense at the earlier of the following dates: when the plan amendment or curtailment occurs; and when related restructuring costs or termination benefits is recognised. A plan amendment occurs when the Group introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

Past-service costs are recognised immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(iii) Other post-retirement benefits

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plan. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by management.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Employee benefits *(continued)*

(b) Share-based compensation

(i) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(ii) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(iii) Social security contributions on share options gains

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Employee benefits *(continued)*

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.22 Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to purchases of land use rights and property, plant and equipment are included in non-current liabilities and recognised in the income statement over the life of depreciable assets by way of a reduced depreciation or amortisation charge.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Revenue recognition *(continued)*

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income is recognised on a straight-line basis over the terms of the leases.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Dividend income is recognised when the right to receive payment is established.

Advances and deposits from customers are recognised as liabilities in the financial statements as advanced receipts from customers, when there are future obligations to provide goods and services. They are derecognised upon sales of goods and provision of services as described above.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(b) As a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. The revenue from operating lease is charge to the consolidated income statement on a straight-line basis over the period of the lease.

2.25 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Research and development costs *(continued)*

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.27 Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency exchange risk

The Group mainly operates in the Mainland China, with most of its transactions denominated and settled in RMB. The Group is exposed to foreign exchange risk primarily arising from Hong Kong Dollars since certain cash and cash equivalents and borrowings are denominated in Hong Kong Dollars. The Group is also exposed to foreign exchange risk through transactions that are denominated in a currency other than the functional currency of the Company and its subsidiaries.

The Group manages its foreign currency exchange risks by performing regular review and monitoring its foreign currency exposures. It has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

At 31 December 2012, if RMB had strengthened/weakened by 5% against the HK$ with all other variables held constant, the Group's profit before tax for the year would have been HK$14,481,000 (31 December 2011: HK$15,105,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents and other receivables, accruals and other payables, and borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as at fair value through profit or loss. The Group has not hedged its price risk arising from investments in financial assets at fair value through profit or loss.

As the Group's investments in equity of other entities are publicly traded, their fair value is determined with reference to quoted market prices.

(iii) Cash flow and fair value interest rate risk

Except for its pledged bank deposits and cash at banks totalled HK$411,728,000 as at 31 December 2012 (31 December 2011: HK$261,607,000), which carried a weighted average interest rate of 0.37% (31 December 2011: 0.6%) per annum, the Group has no significant interest-bearing assets.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Cash flow and fair value interest rate risk (continued)

The Group's interest bearing liabilities are bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At the balance sheet date, if interest rate had been increased/decreased by 0.5 percentage-point and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2012 would decrease/increase by approximately HK$2,357,000 (31 December 2011: 0.5 percentage-point, HK$1,635,000). This relates primarily to interest expense on floating rate bank borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of its pledged bank deposits, cash and cash equivalents, trade and bills receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

As at 31 December 2012, 81% (31 December 2011: 85%) of the Group's bank deposits are placed in major financial institutions located in PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2012 ***HK$'000***	2011 *HK$'000*
State-owned banks	**128,785**	40,601
Listed banks	**204,727**	176,643
Other financial institutions	**78,121**	39,730
Total	**411,633**	256,974

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers (Note 13). As at 31 December 2012, majority of trade receivables are with customers having an appropriate credit history.

As at 31 December 2012, out of the total trade and bills receivables, 40% (31 December 2011: 46%) are bank acceptance notes, of which the credit risks rest with the acceptance banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the acceptance banks.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities (including contractually committed interest payments) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
At 31 December 2012				
Borrowings	**522,474**	**182,305**	**123,729**	**828,508**
Interests payments on borrowings	**31,125**	**19,082**	**8,505**	**58,712**
Trade and bills payables	**250,575**	**–**	**–**	**250,575**
Accruals and other payables	**330,660**	**–**	**–**	**330,660**
	1,134,834	**201,387**	**132,234**	**1,468,455**
At 31 December 2011				
Borrowings	329,793	60,000	26,822	416,615
Interests payments on borrowings	11,915	2,028	907	14,850
Trade and bills payables	259,986	–	–	259,986
Accruals and other payables	393,338	–	–	393,338
	995,032	62,028	27,729	1,084,789

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the Company's shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total equity less non-controlling interests. Net borrowings are calculated as total borrowings (including current and non-current borrowings) less pledged bank deposits and cash and cash equivalents.

The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012	2011
	HK$'000	*HK$'000*
Total borrowings *(Note 19)*	**828,508**	416,615
Less: Cash and cash equivalents *(Note 16)*	**(411,783)**	(257,980)
Net debt	**416,725**	158,635
Total equity less non-controlling interests	**2,488,492**	2,295,677
Total capital less non-controlling interests	**2,905,217**	2,454,312
Gearing ratio	**14.4%**	6.5%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

As of 31 December 2012, the Group did not have any financial instruments carried at fair value (31 December 2011: HK$2,367,000). The fair value of financial assets traded in active markets (such as financial assets at fair value through profit or loss) that were recorded during the year ended 31 December 2011 was based on quoted market prices at the reporting date (level 1).

The carrying values of receivables (net of impairment provision) and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in Note 2.7. The recoverable amount of cash-generating unit has been determined based on higher of value-in-use and fair value less costs to sell.

The Group measured the value in use and fair value less costs to sell by discounting the future estimated cash flow deriving from CGU. These calculations required the Group to estimate the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. These estimates are based on the credit history of its customers and other debtors and current market condition. The Group's management reassesses the provision at each balance sheet date.

(c) Current tax and deferred tax

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

5. SEGMENT INFORMATION – GROUP

The chief operating decision-maker has been identified as the executive directors. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from a product perspective, which assesses the performance of two product segments, namely Intravenous infusion solution and others and Antibiotics and others.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of revenue and profit. This measurement is consistent with that in the annual financial statements.

Unallocated operating loss was mainly attributable to corporate expenses.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, trade and bill receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. Unallocated assets mainly comprise corporate cash.

Segment liabilities comprise mainly operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated income statement.

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2012 is as follows:

	Intravenous infusion solution and others *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	1,418,174	1,012,510	–	2,430,684
Operating profit/(loss) segment results	346,711	61,160	(35,655)	372,216
Finance income	692	296	254	1,242
Finance costs	(24,388)	(11,251)	(1,315)	(36,954)
Profit before income tax	323,015	50,205	(36,716)	336,504
Income tax expense	(49,148)	(6,365)	–	(55,513)
Profit for the year	273,867	43,840	(36,716)	280,991

Other segment items included in the consolidated income statement for the year ended 31 December 2012 are as follows:

	Intravenous infusion solution and others *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amortisation of land use rights	1,886	3,931	–	5,817
Depreciation of property, plant and equipment	104,049	29,390	327	133,766
Amortisation of intangible assets	10,398	1,561	–	11,959
Provision for write-down of inventories	–	36	–	36
Provision for impairment of receivables	477	14,728	–	15,205

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment information provided to the decision-maker for the reportable segments for the year ended 31 December 2011 is as follows:

	Intravenous infusion solution and others *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue	1,036,463	1,118,752	–	2,155,215
Operating profit/(loss) segment results	174,033	81,620	(242,507)	13,146
Finance income	932	571	1,268	2,771
Finance costs	(10,097)	(7,796)	(218)	(18,111)
Loss before income tax	164,868	74,395	(241,457)	(2,194)
Income tax expense	(25,428)	(13,154)	(601)	(39,183)
Loss for the year	139,440	61,241	(242,058)	(41,377)

Other segment items included in the consolidated income statement for the year ended 31 December 2011 are as follows:

	Intravenous infusion solution and others *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amortisation of land use rights	1,840	3,848	–	5,688
Depreciation of property, plant and equipment	67,369	28,205	465	96,039
Amortisation of intangible assets	17,774	1,253	–	19,027
Impairment of goodwill	223,552	–	–	223,552
Provision for write-down of inventories	–	280	–	280
Impairment of property, plant and equipment	–	2,394	–	2,394
Provision for impairment of receivables	107	2,448	–	2,555

5. SEGMENT INFORMATION – GROUP *(continued)*

The segment assets and liabilities at 31 December 2012 are as follows:

	Intravenous infusion solution and others *HK$'000*	**Antibiotics and others** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Total assets	**2,606,370**	**1,381,777**	**3,291**	**3,991,438**
Total liabilities	**1,073,860**	**428,482**	**–**	**1,502,342**

The segment assets and liabilities at 31 December 2011 are as follows:

	Intravenous infusion solution and others *HK$'000*	Antibiotics and others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total assets	2,074,263	1,254,941	115,336	3,444,540
Total liabilities	814,971	319,529	13,747	1,148,247

The total of non-current assets were as follows:

	2012 *HK$'000*	2011 *HK$'000*
Total non-current assets other than deferred tax assets		
– Mainland China	**2,179,591**	1,981,096
– Hong Kong	**997**	1,211
Deferred tax assets	**21,175**	21,526
Total non-current assets	**2,201,763**	2,003,833

The chief operating decision-maker has also determined that no geographical segment information is presented as over 95% of the Group's sales and operating profits are derived within the PRC and over 95% operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. LAND USE RIGHTS – GROUP

	2012	2011
	HK$'000	*HK$'000*
At 1 January		
Cost	**240,416**	229,049
Accumulated amortisation	**(19,983)**	(13,484)
Net book amount	**220,433**	215,565
Year ended 31 December		
Opening net book amount	**220,433**	215,565
Additions	**24,668**	–
Amortisation	**(5,817)**	(5,688)
Exchange differences	**(43)**	10,556
Closing net book amount	**239,241**	220,433
At 31 December		
Cost	**265,037**	240,416
Accumulated amortisation	**(25,796)**	(19,983)
Net book amount	**239,241**	220,433

Land use rights are located in Hebei Province and Shaanxi Province, the Mainland China, and are held on leases of 37 to 50 years from the dates of acquisition.

As at 31 December 2012, the Group's land use rights with net book amount of HK$48,724,000 (31 December 2011: HK$50,025,000) (Note 19) were pledged as collateral for the Group's bank borrowings.

Amortisation of land use rights has been included in general and administrative expenses.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, Fixtures and office equipment	Vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011						
Cost	414,056	837,766	67,220	56,257	133,212	1,508,511
Accumulated depreciation	(97,864)	(347,851)	(34,896)	(30,149)	–	(510,760)
Impairment losses	–	(3,684)	–	–	–	(3,684)
Net book amount	316,192	486,231	32,324	26,108	133,212	994,067
Year ended 31 December 2011						
Opening net book amount	316,192	486,231	32,324	26,108	133,212	994,067
Additions	35,116	259,841	26,091	6,633	176,735	504,416
Transfers	72,338	14,410	1,142	–	(87,890)	–
Deductions resulting from disposal of a subsidiary	–	–	(44)	–	–	(44)
Disposals	(189)	(9,028)	(2,452)	(2,497)	–	(14,166)
Depreciation	(17,806)	(65,011)	(7,489)	(5,733)	–	(96,039)
Impairment	–	(2,394)	–	–	–	(2,394)
Exchange differences	17,910	29,036	1,966	1,253	8,814	58,979
Closing net book amount	423,561	713,085	51,538	25,764	230,871	1,444,819
At 31 December 2011						
Cost	542,896	1,115,021	90,873	54,950	230,871	2,034,611
Accumulated depreciation	(119,335)	(396,137)	(39,335)	(29,186)	–	(583,993)
Impairment losses	–	(5,799)	–	–	–	(5,799)
Net book amount	423,561	713,085	51,538	25,764	230,871	1,444,819
Year ended 31 December 2012						
Opening net book amount	423,561	713,085	51,538	25,764	230,871	1,444,819
Additions	48,921	99,452	18,666	5,777	160,675	333,491
Transfers	157,642	(20,238)	(100)	–	(137,304)	–
Transfers to intangible assets	–	–	–	–	(2,876)	(2,876)
Disposals	(367)	(7,452)	(2,709)	(628)	–	(11,156)
Depreciation	(26,257)	(88,059)	(13,667)	(5,783)	–	(133,766)
Exchange differences	(95)	(131)	(9)	(5)	(48)	(288)
Closing net book amount	603,405	696,657	53,719	25,125	251,318	1,630,224
At 31 December 2012						
Cost	741,002	1,148,446	102,960	56,245	251,318	2,299,971
Accumulated depreciation	(137,597)	(445,990)	(49,241)	(31,120)	–	(663,948)
Impairment losses	–	(5,799)	–	–	–	(5,799)
Net book amount	603,405	696,657	53,719	25,125	251,318	1,630,224

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

Group *(continued)*

The buildings are located in Hebei Province and Shaanxi Province, the Mainland China.

Construction-in-progress represents buildings under construction and plant and machinery pending installation. The buildings under construction are located in Hebei Province and Shaanxi Province, the Mainland China.

Depreciation expense recognised in the consolidated income statement is analysed as follows:

	2012	2011
	HK$'000	*HK$'000*
Cost of sales	**94,420**	65,134
Selling and marketing costs	**1,702**	1,570
General and administrative expenses	**37,644**	29,335
	133,766	96,039

As at 31 December 2012, buildings, plant and machinery with net book amount of HK$249,166,100 (31 December 2011: HK$246,470,000) (Note 19) were pledged as collateral for the Group's bank borrowings.

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

Company

	Furniture, fixtures and office equipment *HK$'000*	**Vehicles** *HK$'000*	**Total** *HK$'000*
At 1 January 2011			
Cost	2,823	2,227	5,050
Accumulated depreciation	(1,286)	(2,114)	(3,400)
Net book amount	1,537	113	1,650
Opening net book amount	1,537	113	1,650
Addition	26	–	26
Depreciation	(377)	(88)	(465)
Closing net book amount	1,186	25	1,211
At 31 December 2011			
Cost	2,849	2,227	5,076
Accumulated depreciation	(1,663)	(2,202)	(3,865)
Net book amount	1,186	25	1,211
Year ended 31 December 2012			
Opening net book amount	1,186	25	1,211
Addition	113	–	113
Depreciation	(302)	(25)	(327)
Closing net book amount	997	–	997
At 31 December 2012			
Cost	2,962	2,227	5,189
Accumulated depreciation	(1,965)	(2,227)	(4,192)
Net book amount	997	–	997

8. INTANGIBLE ASSETS – GROUP

	Goodwill	Trademark and patents	Softwares	Customer relationships	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011					
Cost	472,162	65,254	1,957	70,910	610,283
Accumulated amortisation	–	(10,265)	(531)	(47,510)	(58,306)
Net book amount	472,162	54,989	1,426	23,400	551,977
Year ended 31 December 2011					
Opening net book amount	472,162	54,989	1,426	23,400	551,977
Addition	–	3,731	215	–	3,946
Deductions resulting from disposal of a subsidary	–	(35)	–	–	(35)
Amortisation	–	(2,766)	(283)	(15,978)	(19,027)
Impairment	(223,552)	–	–	–	(223,552)
Exchange differences	–	2,754	68	765	3,587
Closing net book amount	248,610	58,673	1,426	8,187	316,896
At 31 December 2011					
Cost	472,162	71,762	2,274	74,430	620,628
Accumulated amortisation	–	(13,089)	(848)	(66,243)	(80,180)
Impairment losses	(223,552)	–	–	–	(223,552)
Net book amount	248,610	58,673	1,426	8,187	316,896
Year ended 31 December 2012					
Opening net book amount	248,610	58,673	1,426	8,187	316,896
Addition	–	1,155	2,010	–	3,165
Transfer from construction-in-progress	–	–	2,876	–	2,876
Amortisation	–	(3,027)	(746)	(8,186)	(11,959)
Exchange differences	–	(11)	(2)	(1)	(14)
Closing net book amount	248,610	56,790	5,564	–	310,964
At 31 December 2012					
Cost	472,162	72,903	7,026	74,416	626,507
Accumulated amortisation	–	(16,113)	(1,462)	(74,416)	(91,991)
Impairment losses	(223,552)	–	–	–	(223,552)
Net book amount	248,610	56,790	5,564	–	310,964

Amortisation of intangible assets of HK$11,959,000 (2011: HK$19,027,000) is included in general and administrative expenses.

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment test of goodwill:

Goodwill is allocated to the Intravenous infusion solution and others segment in the Mainland China, the cash-generating unit (CGU) identified.

The CGU's annual impairment review resulted in no impairment charge for 2012 (2011: HK$223 million). The recoverable amount of the CGU has been assessed by reference to fair value less costs to sell.

In arriving at fair value less costs to sell, a post-tax discount rate of 12.6 per cent has been applied to the post-tax cash flows expressed in real terms. Fair value less costs to sell was determined by using cash flows projection based on financial budgets covering a period of 5 years, taking into account of past experience, long term production plans, market condition and industry trend. These cash flows are then aggregated with a "terminal value". The terminal value represents the value of cash flows beyond the 5th year, incorporating an annual real-term growth rate of three per cent, with a corresponding increase in capital expenditure to support the real term growth rate. The operating cost levels included in the fair value assessment are calculated based on Intravenous infusion solution and others segment's long term production plans.

The key assumptions used for fair value less costs to sell calculations are as follows:

	2012	2011
Gross profit margin in the next five years	**40.2%-43.1%**	31.2%-35.0%
Growth rate in the next five years	**11%-31%**	10%-35%
Perpetual growth rate	**3%**	3%
Post-tax discount rate	**12.6%**	12.6%

The growth rate used is consistent with the forecasts included in industry reports. The discount rate used is post-tax and reflect specific risks relating to the operating segment.

When determining the gross profit margins and growth rates used in the internal budget for the next five years, management has taken into account a number of factors: In 2012, the mandatory implementation of the new Good Manufacturing Practice ("GMP") has increased the entry barrier of the industry, and the newly constructed modernised production line of the CGU has passed the new GMP certification, thereby the competitive environment has been enhanced. The relocation, upgrade and reconstruction project of the CGU, launched in August 2012, also led to an anticipation of further economies of scale for the infusion solution and others segment. As a result, the recoverable amount of the CGU calculated based on fair value less costs to sell well exceeded its carrying value as at 31 December 2012.

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY

	2012	2011
	HK$'000	*HK$'000*
Investments in unlisted shares, at cost	**1,248,788**	1,248,788
Advance to a subsidiary – non-current	**16,060**	16,060
	1,264,848	1,264,848

Advance to a subsidiary represents equity funding provided by the Company and is measured in accordance with the Company's accounting policy for investments in subsidiaries. It is unsecured and non-interest bearing.

The details of the Company's principal subsidiaries at 31 December 2012, all of which are unlisted, are as follow:

Name	**Place of incorporation and type of legal entity**	**Principal activities and place of operations**	**Particulars of issued and fully paid share capital**	**Interest held** 2012	2011
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Limited liability company incorporated in Samoa	Investment holding company in Hong Kong	USD1	**100% (Directly held)**	100% (Directly held)
Shijiazhuang No. 4 Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB260,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Xi'an Lijun Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Shaanxi Province, Mainland China	RMB330,000,000	**100% (Directly held)**	100% (Directly held)

9. INVESTMENTS IN SUBSIDIARIES AND ADVANCE TO A SUBSIDIARY – COMPANY *(continued)*

Name	Place of incorporation and type of legal entity	Principal activities and place of operations	Particulars of issued and fully paid share capital	Interest held 2012	Interest held 2011
Hebei Jinmen Pharmaceutical Import & Export Co., Ltd.	Limited liability company incorporated in Mainland China	Trading in Mainland China	RMB1,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Guolong Pharmaceutical Co., Ltd.	Limited liability company incorporated in Mainland China	Manufacturing and sale of pharmaceutical products in Hebei Province, Mainland China	RMB2,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	Limited liability company incorporated in Mainland China	Pharmaceutical technology research and development and consulting	RMB3,000,000	**100% (Indirectly held)**	100% (Indirectly held)
Hebei Guangxiang Logistics Co., Ltd.	Limited liability company incorporated in Mainland China	Logistics of pharmaceutical products in Mainland China	RMB3,000,000	**83.33% (Indirectly held)**	83.33% (Indirectly held)

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2012 (31 December 2011: None).

Amounts due from subsidiaries – current

These balances are unsecured, non-interest bearing and without pre-determined repayment terms.

10. DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2012	2011
	HK$'000	*HK$'000*
Deferred tax assets:		
– to be recovered after more than 12 months	**2,683**	2,940
– to be recovered within 12 months	**18,492**	18,586
	21,175	21,526
Deferred tax liabilities:		
– to be settled after more than 12 months	**23,243**	22,872
– to be settled within 12 months	**540**	2,472
	23,783	25,344
Deferred tax liabilities – net	**2,608**	3,818

The gross movements in the deferred income tax account are as follows:

	2012	2011
	HK$'000	*HK$'000*
Beginning of the year	**3,818**	5,050
Credited to the consolidated income statement *(Note 28)*	**(1,212)**	(1,432)
Exchange differences	**2**	200
End of the year	**2,608**	3,818

10. DEFERRED INCOME TAX – GROUP *(continued)*

The movements in deferred tax assets are as follows:

	Accrued expenses HK$'000	Provision for impairments HK$'000	Post-employment benefits HK$'000	Deductible losses HK$'000	Total HK$'000
At 1 January 2011	11,930	6,153	3,117	–	21,200
(Charged)/credited to the consolidated income statement	(492)	658	(1,238)	363	(709)
Exchange differences	(72)	322	776	9	1,035
At 31 December 2011	11,366	7,133	2,655	372	21,526
(Charged)/credited to the consolidated income statement	(2,326)	2,230	102	(354)	(348)
Exchange differences	(2)	(1)	–	–	(3)
At 31 December 2012	9,038	9,362	2,757	18	21,175

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise cumulative deferred tax assets of HK$27,376,000 (31 December 2011: HK$21,318,000) in respect of losses amounted to HK$165,913,000 (31 December 2011: HK$129,197,000) that can be carried forward against future taxable income as at 31 December 2012.

The movements in deferred tax liabilities are as follows:

	Revaluation of assets on acquisition HK$'000	Withholding tax *(Note 28)* HK$'000	Total HK$'000
At 1 January 2011	26,250	–	26,250
(Credited)/charged to the consolidated income statement	(2,742)	601	(2,141)
Exchange differences	1,235	–	1,235
At 31 December 2011	24,743	601	25,344
Credited to the consolidated income statement	(959)	(601)	(1,560)
Exchange differences	(1)	–	(1)
At 31 December 2012	23,783	–	23,783

As at 31 December 2012, deferred income tax liabilities of HK$70,378,000 (31 December 2011: HK$ 58,750,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$1,005,986,000 at 31 December 2012 (31 December 2011: HK$773,434,000).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2012	2011
	HK$'000	*HK$'000*
Beginning of the year	**159**	152
Exchange differences	**–**	7
End of the year	**159**	159

As at 31 December 2012, available-for-sale financial asset amounting to HK$159,000 (31 December 2011: HK$159,000) represents a 14.37% equity interest in Xi'an Lijun Transportation Co., Ltd., which is an unlisted company. Since the range of reasonable fair value estimate is significant and the probabilities of various estimates cannot be reasonably assessed, the available-for-sale financial asset is carried at cost less accumulated impairment losses.

12. INVENTORIES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**202,615**	178,578
Work in progress	**28,337**	33,993
Finished goods	**167,806**	129,747
	398,758	342,318

The Group recorded an inventory write-down of HK$36,000 (2011: HK$280,000) during the year ended 31 December 2012. The provision has been included in cost of sales.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$1,397,590,000 (2011: HK$1,241,525,000).

13. TRADE AND BILLS RECEIVABLES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**519,994**	390,520
Bills receivable	**341,991**	334,491
Less: Provision for impairment	**(35,042)**	(20,345)
	826,943	704,666

The fair values of trade and bills receivables approximate their carrying amounts.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The Group generally requires its customers to settle sales invoices within 3 months. Ageing analysis of trade and bills receivables based on revenue recognition date is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 3 months	**706,580**	627,850
4 to 6 months	**44,815**	29,746
7 to 12 months	**26,274**	34,451
1 to 2 years	**65,333**	15,380
2 to 3 years	**9,474**	3,900
More than 3 years	**9,509**	13,684
	861,985	725,011

As at 31 December 2012, trade receivables of HK$71,089,000 (2011: HK$64,197,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2012	2011
	HK$'000	*HK$'000*
4 to 6 months	**44,815**	29,746
7 to 12 months	**26,274**	34,451
	71,089	64,197

As at 31 December 2012, impaired trade and bills receivables amounting to approximately HK$84,316,000 (31 December 2011: HK$32,964,000) were assessed for impairment and a provision of HK$35,042,000 (31 December 2011: HK$20,345,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year.

13. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

The ageing of individually impaired receivables and an estimate of expected recovery are as follows:

	2012	2011
	HK$'000	*HK$'000*
1 to 2 years	**65,333**	15,380
2 to 3 years	**9,474**	3,900
More than 3 years	**9,509**	13,684
	84,316	32,964
Less: Expected recovery	**(49,274)**	(12,619)
Impairment provision made	**35,042**	20,345

The expected recovery was assessed, based on the collateral or other credit enhancement held by the Group, repayment progress, and available information on subsequent repayment.

Movements of provision for impairment of trade receivables are as follows:

	2012	2011
	HK$'000	*HK$'000*
Beginning of the year	**20,345**	17,456
Additional provision	**14,702**	1,974
Exchange differences	**(5)**	915
End of the year	**35,042**	20,345

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The Group's trade receivables were denominated in the following currencies:

	2012	2011
	HK$'000	*HK$'000*
RMB	**842,316**	709,343
USD	**19,669**	15,668
	861,985	725,011

The maximum exposure to credit risk at the reporting date is the fair value of the receivables mentioned above. The Group does not hold any collateral as security.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2012	2011
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – the Mainland China	**–**	2,367

The fair values of equity securities are based on their closing bid prices.

Changes in fair value of the financial assets at fair value through profit or loss are recorded in 'other gains – net'.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due from the agent companies *(Note 23)*	**84,219**	84,234	**–**	–
Prepayments for purchases of inventories	**12,378**	19,861	**–**	–
Prepaid advertising costs	**8,071**	9,859	**–**	–
Amounts due from related parties *(Note 34(c))*	**30**	288	**–**	–
Staff advances	**6,213**	4,922	**–**	–
Prepaid insurance costs	**1,001**	1,029	**–**	–
Deposits	**7,999**	3,315	**1,443**	1,396
Other receivables	**32,280**	5,425	**–**	–
	152,191	128,933	**1,443**	1,396

According to the relevant PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from their share disposal. Settlement of such individual income tax is handled through certain agent companies. In this regard, HK$84,219,000 (31 December 2011: HK$84,234,000) (Note 23) receivables and the same amount of payables relating to PRC individual income taxes in total have been recorded in the consolidated financial statements.

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**–**	4,443	**–**	–
Cash at bank and in hand	**411,783**	257,980	**851**	112,729
	411,783	262,423	**851**	112,729

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(continued)*

Pledged bank deposits are pledged for:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payable for property, plant and equipment	**–**	740	**–**	–
Bills payable	**–**	3,703	**–**	–
	–	4,443	**–**	–

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash at bank.

Pledged bank deposits and cash at bank and in hand were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**409,692**	208,861	**25**	61,769
HK$	**1,128**	50,688	**826**	50,649
USD	**963**	2,874	**–**	311
	411,783	262,423	**851**	112,729

The interest bearing bank deposits (included in pledged bank deposits and cash at bank) carried a weighted average interest rate of 0.37% (2011: 0.6%) per annum for the year ended 31 December 2012. These deposits had maturity of one month (31 December 2011: one month) at inception, other than those without pre-determined maturity terms.

The Group's pledged bank deposits and cash at bank denominated in RMB were deposited with banks in the Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

17. SHARE CAPITAL

	Number of shares *'000*	Ordinary shares *HK$'000*
Authorised		
At 31 December 2012 and 2011 (ordinary shares of HK$0.02 each)	10,000,000	200,000
Issued and fully paid up		
At 1 January 2011 (ordinary shares of HK$0.02 each)	2,454,904	55,905
Cancelation of shares *(a)*	(10,090)	(202)
At 31 December 2011 (ordinary shares of HK$0.02 each)	2,444,814	55,703
Cancelation of shares *(b)*	(3,210)	(64)
Issuance of bonus shares *(c)*	488,321	9,766
At 31 December 2012 (ordinary shares of HK$0.02 each)	2,929,925	65,405

(a) The Company acquired 6,040,000 of its own shares through the Stock Exchange in a period from 28 December 2010 to 31 December 2010. The consideration for the acquisition of those shares was HK$13,786,000 and has been deducted from retained earnings within reserve. The shares are held as 'treasury shares'. All shares issued by the Company were fully paid. The Company subsequently cancelled those 6,040,000 treasury shares on 14 January 2011.

The Company acquired 4,050,000 of its own shares through the Stock Exchange in a period from 30 May 2011 to 9 June 2011. The consideration for the acquisition of those shares was HK$6,764,000. All shares issued by the Company were fully paid. The Company cancelled 4,050,000 shares on 30 June 2011.

(b) During the period from 28 March 2012 to 4 June 2012, the Company repurchased 3,210,000 ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK$5,520,000, which had been deducted from retained earnings within shareholders' equity.

On 30 April 2012 and 29 June 2012, the Company cancelled 1,570,000 and 1,640,000 ordinary shares repurchased respectively. Directly attributable expenses of approximately HK$2,000 relating to the cancellation were charged against the retained earnings of the Company. After the cancellation, the Company's ordinary shares in issue were reduced from 2,444,814,000 to 2,441,604,000.

(c) The Issuance of bonus share is made on the basis of one bonus share for every five existing shares held on 28 September 2012 (the "Record Date") by the shareholders. The bonus shares were issued and credited as fully paid at par, by capitalisation of such amount standing to the credit of the share premium account of the Company. On the basis of 2,441,604,000 existing shares in issue as at the Record Date, 488,321,000 bonus shares were issued under the issuance of bonus share (representing 20% of the issued share capital as at the Record Date), and HK$9,766,000 standing to the credit of the share premium account of the Company was capitalised for paying up 488,321,000 bonus shares in full at par.

18. RESERVES

Group

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserve *HK$'000*	Share-based payment reserve *HK$'000*	Currency translation differences *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2011	1,371,873	176,670	173,241	–	8,747	568,683	2,299,214
Cancellation of shares	(20,348)	–	–	–	–	20,550	202
Purchase of treasury shares	–	–	–	–	–	(6,764)	(6,764)
Loss for the year	–	–	–	–	–	(41,401)	(41,401)
Dividends paid to equity holders of the Company	–	–	–	–	–	(97,873)	(97,873)
Transfer to statutory reserve *(Note (a))*	–	–	20,608	–	–	(20,608)	–
Currency translation differences	–	149	8,598	–	77,849	–	86,596
At 31 December 2011	1,351,525	176,819	202,447	–	86,596	422,587	2,239,974
Cancellation of shares *(Note 17)*	(5,458)	–	–	–	–	5,522	64
Purchase of treasury shares *(Note 17)*	–	–	–	–	–	(5,522)	(5,522)
Profit for the year	–	–	–	–	–	281,003	281,003
Dividends paid to equity holders of the Company	(73,571)	–	–	–	–	(24,126)	(97,697)
Transfer to statutory reserve *(Note (a))*	–	–	31,770	–	–	(31,770)	–
Issuance of bonus shares *(Note 17)*	(9,766)	–	–	–	–	–	(9,766)
Share option scheme – value of employee service *(Note (b))*	–	–	–	15,530	–	–	15,530
Currency translation differences	–	–	3	–	(502)	–	(499)
At 31 December 2012	1,262,730	176,819	234,220	15,530	86,094	647,694	2,423,087

(a) Statutory reserve

As stipulated by regulations in the Mainland China and the Articles of Association of the Company's subsidiaries established in the Mainland China, the subsidiaries established in the Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

18. RESERVES *(continued)*

Company

	Share premium HK$'000	Capital reserve HK$'000	Share-based payment reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2011	1,371,873	173,703	–	60,986	1,606,562
Cancellation of shares	(20,348)	–	–	20,550	202
Purchase of shares	–	–	–	(6,764)	(6,764)
Profit for the year	–	–	–	30,563	30,563
Dividends paid to equity holders of the Company	–	–	–	(97,873)	(97,873)
At 31 December 2011	1,351,525	173,703	–	7,462	1,532,690
Cancellation of shares	(5,458)	–	–	5,522	64
Purchase of shares	–	–	–	(5,522)	(5,522)
Profit for the year	–	–	–	16,664	16,664
Dividends paid to equity holders of the Company	(73,571)	–	–	(24,126)	(97,697)
Issuance of bonus shares *(Note 17)*	(9,766)	–	–	–	(9,766)
Share option scheme – Value of employee services *(Note (b))*	–	–	15,530	–	15,530
At 31 December 2012	1,262,730	173,703	15,530	–	1,451,963

(b) Share-based payments

As approved by the Board of Directors' meeting on 3 May 2012, 40,000,000 share options (being adjusted to 48,000,000 share options as a result of the issuance of bonus shares on 16 October 2012) were granted to two directors at an exercise price of HK$1.78 per share (being adjusted to HK$1.48 as a result of issuance of bonus share on 16 October 2012), which represents the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the share for 5 trading days immediately preceding the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

18. RESERVES *(continued)*

(b) Share-based payments *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise Price *(HK$ per share)*	Number of Options *(thousands)*
At 1 January 2012	–	–
Granted	1.48	48,000
At 31 December 2012	1.48	48,000

Details of share options outstanding at 31 December 2012 are as follows:

Exercisable from	Expiry date	Average exercise Price *(HK$ per share)*	Number of Options *(thousands)*
3 May 2012	2 May 2015	1.48	48,000

The weighted average fair value of options granted on 3 May 2012 determined by using the Binomial Model was HK$0.39 per option. The significant inputs into the model were share price at the grant date, the exercise price shown above, expected volatility of 62.15%, expected dividend yield of 2.26% and risk-free interest rate of 0.32%. The share price at the grant date is the closing price of the Company's listed shares as of the grant date. The expected volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices of the Company over the last three years. The expected dividend yield is measured based on the dividend yield per the Company as projected by Bloomberg, which agree to the Directors' best estimation based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated statement of comprehensive income for the year ended 31 December 2012 was approximately HK$15,530,000.

19. BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current				
Non-current portion of long-term bank borrowings	**306,034**	86,822	**–**	–
Current				
Current portion of long-term bank borrowings	**59,996**	76,760	**–**	–
Short-term bank borrowings	**462,478**	253,033	**–**	12,500
	522,474	329,793	**–**	12,500
Total borrowings	**828,508**	416,615	**–**	12,500
Representing:				
Unsecured	**351,484**	129,683	**–**	12,500
Pledged (i)	**325,150**	264,842	**–**	–
Guaranteed (ii)	**151,874**	22,090	**–**	–
	828,508	416,615	**–**	12,500

(i) As at 31 December 2012, certain of the Group's borrowings were secured by the Group's land use rights with a net book amount of HK$48,724,000 (31 December 2011: HK$50,025,000), and the Group's buildings, plant and machinery with a net book amount of HK$249,166,100 (31 December 2011: HK$246,470,000).

(ii) As at 31 December 2012 and 2011, certain of the Group's bank borrowings were guaranteed by Xi'an Lijun Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company.

As at 31 December 2012, the Group's borrowings were repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**522,474**	329,793	**–**	12,500
Between 1 and 2 years	**182,305**	60,000	**–**	–
Between 2 and 5 years	**123,729**	26,822	**–**	–
	828,508	416,615	**–**	12,500

19. BORROWINGS *(continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
6 months or less	**703,368**	275,123	**–**	12,500
6 to 12 months	**125,140**	141,492	**–**	–
	828,508	416,615	**–**	12,500

The borrowings were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**616,637**	265,203	**–**	–
HK$	**88,142**	151,412	**–**	12,500
USD	**123,729**	–	**–**	–
	828,508	416,615	**–**	12,500

The effective interest rates (per annum) at the balance sheet date were as follows:

	2012			2011	
	HK$	***RMB***	***USD***	*HK$*	*RMB*
Bank borrowings	3.49%	6.87%	3.26%	3.4%	5.4%

The fair values of short-term borrowings approximate their carrying amounts. The carrying amounts and fair values of non-current borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings	**306,034**	86,822	**289,610**	81,746	**–**	–	**–**	–

19. BORROWINGS *(continued)*

As at 31 December 2012, the Group has the following undrawn borrowing facilities:

	2012	2011
	HK$'000	*HK$'000*
Fixed rates		
– expiring within one year	**160,326**	–
Floating rates		
– expiring within one year	**357,649**	123,350
	517,975	123,350

20. DEFERRED REVENUE – GROUP

Government grant received from municipal governments in connection with the Group's research and development of high technology pharmaceuticals in its laboratories and plants is deferred and will be recognised in consolidated income statement in due course when the research and development costs are incurred and recognised in income statement.

Movements of deferred revenue are as follows:

	2012	2011
	HK$'000	*HK$'000*
Beginning of the year	**10,608**	4,818
Current year additions	**–**	5,416
Recognised in income statement	**(2,812)**	–
Exchange differences	**(1)**	374
End of the year	**7,795**	10,608

21. POST-EMPLOYMENT BENEFIT OBLIGATION – GROUP

The maturity profile of the post-employment benefit obligation is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 year	**577**	673
Between 1 to 2 years	**547**	561
Between 2 to 5 years	**1,473**	1,323
More than 5 years	**8,905**	8,664
	11,502	11,221
Less: Current portion included in current liabilities *(Note 23)*	**(577)**	(673)
	10,925	10,548

21. POST-EMPLOYMENT BENEFIT OBLIGATION – GROUP *(Continued)*

The movements of post-employment benefits recognised in the balance sheet is as follows:

	2012	2011
	HK$'000	*HK$'000*
Beginning of the year	**11,221**	16,493
Total expense, included in staff cost		
– Current service cost	**62**	124
– Curtailments *(Note (a))*	**–**	(6,769)
– Interest cost	**384**	956
– Actuarial gain	**2,472**	2,910
Contribution paid	**(2,473)**	(3,311)
Exchange differences	**(164)**	818
End of the year	**11,502**	11,221

The above obligations were determined by the Group's management using the projected unit credit method. Discount rate and resignation rate adopted are as follows:

	2012	2011
Discount rate	**4.3%**	4.0%
Annual resignation rate	**2.7%**	2.7%

(a) Compensation for post employment benefit obligations is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation by the employee, entered into an agreement with the employee specifying the terms, and advised the individual employee of the specific terms. In October 2011, the Group revised the terms and recalculated the constructive obligation. As a result, HK$6,769,000 is credited into the consolidated income statement.

22. TRADE AND BILLS PAYABLES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**250,575**	222,981
Bills payable	**–**	37,005
	250,575	259,986

22. TRADE AND BILLS PAYABLES – GROUP *(continued)*

Credit terms for trade and bills payables range from 90 to 180 days. The ageing analysis of the trade and bills payables is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 3 months	**190,380**	195,371
4 to 6 months	**31,166**	25,817
7 to 12 months	**19,163**	23,163
1 to 3 years	**8,440**	14,474
More than 3 years	**1,426**	1,161
	250,575	259,986

The Group's trade and bills payables were all denominated in RMB.

23. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Withholding individual income tax payables *(Note 15)*	**84,219**	84,234	**–**	–
Payables for purchase of property, plant and equipment	**129,214**	178,495	**–**	–
Accrued sales commission	**40,118**	52,453	**–**	–
Payables for advertising expense	**6,087**	7,811	**–**	–
Value added tax payable	**10,274**	10,593	**–**	–
Other taxes payables	**15,662**	10,672	**–**	–
Welfare payables	**9,314**	10,006	**–**	–
Accrued salaries and wages	**11,453**	18,804	**–**	1,170
Professional fee payables	**1,906**	3,040	**–**	–
Current portion of long-term payables *(Note 21)*	**577**	673	**–**	–
Others	**21,836**	16,557	**–**	77
	330,660	393,338	**–**	1,247

24. REVENUE – GROUP

The Group is principally engaged in the manufacturing and sale of pharmaceutical products.

Revenue recognised is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue:		
– Sales of pharmaceutical products	**2,410,631**	2,137,748
– Sales of raw materials and by products	**5,847**	4,421
– Processing income	**9,334**	7,359
– Rental income	**4,872**	2,076
– Royalty income *(Note 34(b))*	**–**	3,611
	2,430,684	2,155,215

25. OTHER GAINS – NET – GROUP

	2012	2011
	HK$'000	*HK$'000*
Loss on disposal of financial assets at fair value through profit or loss	**(824)**	(3,580)
Loss on disposal of a subsidiary	**–**	(449)
Government grants	**38,052**	12,131
Change in fair value of financial assets at fair value through profit or loss	**535**	(521)
Gain on disposals of property, plant and equipment	**2,358**	–
	40,121	7,581

Government grants mainly represent subsidy income received from various government organisations to compensate the research and development expenditures, interest expenses and other incentives to support the operations of the Group.

26. EXPENSE BY NATURE – GROUP

	2012 *HK$'000*	2011 *HK$'000*
Raw materials and consumables used	**974,836**	907,855
Changes in inventories of finished goods and work in progress	**(31,428)**	(3,007)
Staff costs		
– Wages and salaries	**245,118**	220,318
– Pension costs	**36,057**	24,772
– Welfare expenses	**41,827**	35,765
– Share-based compensation *(Note 18)*	**15,530**	–
Sales commission	**114,298**	150,382
Utility expenses	**158,218**	124,060
Advertising expenses	**64,327**	63,175
Travelling, meeting and entertainment expenses	**53,228**	56,193
Operating leases rental expenses	**9,393**	3,894
Depreciation of property, plant and equipment	**133,766**	96,039
Write-down of inventories to their net realisable value	**36**	280
Provision for impairment of receivables	**15,205**	2,555
Provision for impairment of property, plant and equipment	**–**	2,394
Amortisation of land use rights	**5,817**	5,688
Amortisation of intangible assets	**11,959**	19,027
Auditors' remuneration	**3,600**	3,600
Transportation expenses	**118,825**	102,702
Tax expenses	**30,644**	28,129
Others	**97,333**	82,277
Total cost of sales, selling and marketing costs and general and administrative expenses	**2,098,589**	1,926,098

27. FINANCE INCOME AND COSTS – GROUP

	2012 *HK$'000*	2011 *HK$'000*
Finance income – Interest income on bank deposits	**1,242**	2,771
Finance costs		
– Interest expense of bank borrowings wholly repayable within five years	**32,890**	22,072
– Discount of bills receivable	**1,248**	343
– Net exchange loss/(gain)	**2,816**	(4,304)
	36,954	18,111

28. INCOME TAX EXPENSE – GROUP

The Company is incorporated in Cayman Islands as an exempted company and, accordingly, is exempted from payment of Cayman Islands income tax.

The Group had no assessable profits in Hong Kong and, accordingly, no Hong Kong profits tax was provided.

All subsidiaries of the Company established and operate in PRC are subject to Mainland China Corporate Income Tax ("CIT") at an applicable rate of 25%.

Xi'an Lijun Pharmaceutical Co., Ltd. and Shijiazhuang No. 4 Pharmaceutical Co., Ltd. have been recognised as High and New Tech Enterprises in 2012. According to the tax incentives rules of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High and New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors in Hong Kong. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

The amounts of taxation charged to the consolidated income statement:

	2012	2011
	HK$'000	*HK$'000*
Current income taxation – Mainland China CIT	**56,725**	40,615
Deferred taxation *(Note 10)*	**(1,212)**	(1,432)
	55,513	39,183

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable CIT rate as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) before income tax	**336,504**	(2,194)
Tax calculated at the domestic tax rate of 15% (2011: 15%) applicable to the subsidiaries	**50,476**	(329)
Impairment loss on goodwill for which no deferred tax assets was recognised	**–**	33,533
Tax losses for which no deferred tax assets were recognised	**6,058**	3,286
Tax exemption and reduction	**(1,481)**	(687)
Remeasurement of deferred tax – change in income tax rate	**–**	1,157
Expenses not deductible	**460**	2,223
Tax expense	**55,513**	39,183
Effective tax rate	**16.5%**	–

29. PROFIT ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$16,664,000 (2011: HK$30,563,000).

30. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

2012

Name	Fees *HK$'000*	Salaries *HK$'000*	Other benefits *HK$'000*	Pension *HK$'000*	Bonus *HK$'000*	Share option *HK$'000*	Total *HK$'000*
Executive directors							
Mr. Wu Qin	–	3,000	28	43	800	7,765	11,636
Mr. Qu Jiguang	–	3,000	52	41	800	7,765	11,658
Mr. Xie Yunfeng	–	600	28	29	–	–	657
Mr. Huang Chao	–	1,108	28	29	–	–	1,165
Mr. Wang Xianjun	–	1,020	480	14	300	–	1,814
Mr. Duan Wei	–	600	38	27	–	–	665
Ms. Zhang Guifu	–	587	28	27	–	–	642
Mr. Bao Leyuan	–	407	28	29	–	–	464
Ms. Gao Shuping	–	1,070	35	27	–	–	1,132
	–	11,392	745	266	1,900	15,530	29,833
Independent non-executive directors							
Mr. Wang Yibing	180	–	–	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	–	–	180
	540	–	–	–	–	–	540
	540	11,392	745	266	1,900	15,530	30,373

30. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS – GROUP *(continued)*

(a) Directors' emoluments *(continued)*

2011

Name	Fees	Salaries	Other benefits	Pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Wu Qin	–	3,000	39	24	3,063
Mr. Qu Jiguang	–	2,684	19	35	2,738
Mr. Xie Yunfeng	–	600	39	12	651
Mr. Huang Chao	–	600	39	12	651
Ms. Sun Xinglai	–	1,014	39	7	1,060
Mr. Wang Xianjun	–	1,020	480	12	1,512
Mr. Duan Wei	–	600	16	23	639
Ms. Zhang Guifu	–	300	16	23	339
Mr. Bao Leyuan	–	300	39	11	350
Ms. Gao Shuping	–	500	16	23	539
	–	10,618	742	182	11,542
Non-executive director					
Mr. Liu Zhiyong	50	–	–	–	50
Independent non-executive directors					
Mr. Wang Yibing	180	–	–	–	180
Mr. Leung Chong Shun	180	–	–	–	180
Mr. Chow Kwok Wai	180	–	–	–	180
	540	–	–	–	540
	590	10,618	742	182	12,132

No directors waived any emoluments during the year ended 31 December 2012 (2011: Nil).

(b) Five highest paid individuals

The five Individuals whose emoluments were the highest in the Group for the year include five (2011: five) directors whose emoluments are reflected in the analysis presented above.

31. EARNINGS/(LOSSES) PER SHARE – GROUP

On the basis of one bonus share for every five existing shares, a total of 488,321,000 bonus shares were issued on 16 October 2012 (Note 17). The bonus shares are treated as outstanding as if the bonus issue had occurred at the beginning of the earliest period reported. As a result, the earnings/(losses) per share figure disclosed for the previous year has been recalculated using the new number of shares in issue.

(a) Basic

Basic earnings/(losses) per share are calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) attributable to equity holders of the Company	**281,003**	(41,401)
Weighted average number of ordinary shares in issue (thousands)	**2,931,521**	2,927,838
Basic earnings/(losses) per share (HK$ per share)	**0.0959**	(0.0141)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) attributable to equity holders of the Company	**281,003**	(41,401)
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,931,521**	2,927,838
Adjustment for share options (thousands)	**1,749**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,933,270**	2,927,838
Diluted earnings/(losses) per share (HK$ per share)	**0.0958**	(0.0141)

32. DIVIDENDS

	2012 *HK$'000*	2011 *HK$'000*
Interim dividend of HK$0.02 (2011: HK$0.02) per ordinary share	**48,832**	48,896
Proposed final dividend of HK$0.02 (2011: HK$0.02) per ordinary share	**58,599**	48,896
	107,431	97,792

The proposed final dividend in respect of the year ended 31 December 2012 of HK$0.02 (2011: HK$0.02) per ordinary share, amounting to a total dividend of HK$58,599,000 calculated based on the 2,929,925,000 outstanding ordinary shares (2011: 2,444,814,000 ordinary shares), is subject to the approval in the forthcoming Annual General Meeting of the Company. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings and share premium for the year ending 31 December 2013.

33. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of cash generated from operations

	2012 *HK$'000*	2011 *HK$'000*
Profit/(loss) before income tax	**336,504**	(2,194)
Provision for impairment of receivables	**15,205**	2,555
Write-down of inventories to their net realisable value	**36**	280
Provision for impairment of property, plant and equipment	**–**	2,394
Depreciation of property, plant and equipment	**133,766**	96,039
Provision for impairment of goodwill	**–**	223,552
Gain on disposal of property, plant and equipment	**(2,358)**	–
Loss on disposal of a subsidiary	**–**	449
Amortisation of land use rights	**5,817**	5,688
Amortisation of intangible assets	**11,959**	19,027
Loss on disposal of financial assets at fair value through profit	**824**	3,580
Change in fair value of financial assets at fair value through profit or loss	**(535)**	521
Interest income	**(1,242)**	(2,771)
Interest expenses	**36,954**	18,111
Share-based compensation *(Note 18)*	**15,530**	–
Operating profit before working capital changes	**552,460**	367,231
Changes in working capital:		
Increase in inventories	**(62,238)**	(30,519)
Increase in trade and bills receivables	**(134,505)**	(194,085)
(Increase)/decrease in prepayments, deposits and other receivables	**(21,868)**	156,464
(Decrease)/Increase in trade and bills payables	**(9,367)**	42,817
Increase/(decrease) in advance receipts from customers	**8,728**	(6,986)
Decrease in accruals and other payables	**(17,147)**	(90,500)
Net cash inflow generated from operations	**316,063**	244,422

33. CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Proceeds from disposals of property, plant and equipment

	2012	2011
	HK$'000	*HK$'000*
Net book amount disposed *(Note 7)*	**11,156**	14,166
Gain on disposal of property, plant and equipment	**2,358**	–
Proceeds from disposals of property, plant and equipment, net of transaction costs	**13,514**	14,166

34. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP

(a) The directors are of the view that the following companies are related parties of the Group:

Name	**Relationship**
Rejoy Group Limited Liability Company ("Rejoy Group")	An entity significantly influenced by certain key management personnel of the Group
Xi'an Rejoy Technology Investment Co., Ltd. ("Rejoy Technology")	Majority owned by shareholders of Prime United Industries Limited ("PUI"), which owns approximately 26.25% interest in the Company as at 31 December 2012
Xi'an Rejoy Packaging Materials Co., Ltd. ("Rejoy Packaging")	Subsidiary of Rejoy Technology
Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")	Wholly-owned subsidiary of Rejoy Group
Xi'an Rejoy Medicine Co., Ltd. ("Rejoy Medicine")	Subsidiary of Rejoy Group
Xi'an Rejoy Real Estate Co., Ltd. ("Rejoy Real Estate")	An entity significantly influenced by certain key management personnel of the Group

34. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(b) Saved as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties:

Nature of transactions	Name of related party	2012	2011
		HK$'000	*HK$'000*
Purchasing of raw materials and packaging materials from	Rejoy Packaging	**5,954**	2,977
Sales of finished goods to	Rejoy Medicine	**2,960**	8,599
Royalty income	Rejoy Real Estate	**–**	3,611
Purchasing of property, plant and equipment	Xi'an Pharmacy Factory	**–**	25,451
Lease of office premises to	Rejoy Group	**–**	241
	Rejoy Packaging	**–**	72
		–	313

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(c) The Group had the following significant balances with related parties:

	2012	2011
	HK$'000	*HK$'000*
Amounts due from related parties, included in trade receivables		
– Rejoy Medicine	**2,621**	6,788

	2012	2011
	HK$'000	*HK$'000*
Amounts due from related parties, included in other receivables		
– Rejoy Packaging	**30**	17
– Rejoy Group	**–**	271
	30	288

34. RELATED PARTY TRANSACTIONS AND BALANCES – GROUP *(continued)*

(c) *(continued)*

	2012	2011
	HK$'000	*HK$'000*
Amounts due to related parties, included in trade payables		
– Rejoy Group	**–**	797
– Rejoy Packaging	**333**	244
	333	1,041

The related party balances are unsecured, interest-free and have no pre-determined terms of repayment.

(d) Key management compensation

	2012	2011
	HK$'000	*HK$'000*
Salaries, bonus and allowances	**14,577**	12,638
Pension	**266**	194
Share option scheme	**15,530**	–
	30,373	12,832

35. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates contracted but not yet provided for is as follows:

	2012	2011
	HK$'000	*HK$'000*
– Plant and machineries	**65,255**	5,935

35. COMMITMENTS – GROUP *(continued)*

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of office premises in Mainland China and Hong Kong under non-cancellable operating leases are payable as follows:

	2012	2011
	HK$'000	*HK$'000*
Not later than one year	**1,669**	2,882
Later than one year and not later than five years	**1,525**	1,730
More than five years	**7,559**	7,751
	10,753	12,363

36. OPERATING LEASE – GROUP

The future aggregate minimum lease rental receipts in respect of office premises and warehouses in Mainland China under non-cancellable operating leases are payable as follows:

	2012	2011
	HK$'000	*HK$'000*
Not later than one year	**835**	505
Later than one year and not later than five years	**1,727**	1,727
More than five years	**1,511**	1,943
	4,073	4,175

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Audited)	(Audited)	(Audited)	(Audited)	**(Audited)**
RESULTS					
Turnover	1,591,028	1,739,628	1,971,657	2,155,215	**2,430,684**
Profit/(loss) before income tax	93,282	240,997	305,681	(2,194)	**336,504**
Income tax expense	8,914	(24,803)	(44,992)	(39,183)	**(55,513)**
Profit/(loss) for the year	102,196	216,194	260,689	(41,377)	**280,991**
Attribute to:					
Equity holders of the Company	102,106	216,095	260,592	(41,401)	**281,003**
Minority interest	90	99	97	24	**(12)**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Audited)	(Audited)	(Audited)	(Audited)	**(Audited)**
ASSETS AND LIABILITIES					
Total assets	2,511,447	2,500,259	3,372,711	3,444,540	**3,991,438**
Total liabilities	(1,141,658)	(874,439)	(1,016,414)	(1,148,247)	**(1,502,342)**
Minority interest	(945)	(1,044)	(1,178)	(616)	**(604)**
Shareholder's equity	1,368,844	1,624,776	2,355,119	2,295,677	**2,488,492**