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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

2011 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2011 *HK$'000*	2010 *HK$'000*	**Decrease %**
Turnover	**6,405,039**	6,502,817	**1.5%**
EBITDA	**795,177**	1,674,224	**52.5%**
Profit before taxation	**183,189**	1,163,280	**84.3%**
Profit for the year attributable to owners of the Company	**104,273**	974,157	**89.3%**
Earnings per share			
Basic (HK cents)	**HK8.0cents**	HK78.2cents	**89.8%**
Diluted (HK cents)	**HK8.6cents**	HK78.2cents	**89.0%**

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2011.

For the year ended 31 December 2011, the Group's turnover amounted to approximately HK$6,410 million, a slight decrease of approximately 1.5% over that of last year. EBITDA and profit before taxation were approximately HK$800 million and HK$180 million respectively, representing a decline of approximately 52.5% and 84.3% over the same period in the previous year, respectively. The profit attributable to owners of the Company was approximately HK$100 million, representing a decrease of 89.3% over the same period in the previous year.

In 2011, on the back of the confusing macro economy and the complex business environment of China's pharmaceutical industry, the Group and the entire domestic pharmaceutical segment were in face of unprecedented challenges as a result of factors including China's stronger regulatory requirements toward the industry and the tender for basic drugs and consequently the full-swing implementation of a new round of price cuts and the policy of "dual control" over healthcare companies and medical insurance, the surge in raw material prices driven by inflation and the European debt crisis associated with uncertainties in the global financial market and rising interest rates. Being a leading enterprise of the industry, United Laboratories steadfastly forged ahead amid changing market conditions and was committed to cost control with the support of its vertically-integrated product mix and production model, economies of scale and brand advantages, while keeping close watch on market trends and making timely adjustments to the business development strategies, constantly developing new products and exploring new markets to solidify its leadership in the industry. The Group's leading edge was apparent in the industry. Our Zhuhai plant received the new national GMP certification in July 2011 and some of our major products were granted the certifications or acceptance of FDA from the US, COS from Europe and GMP from Japan, hence consolidating the industry leading status of the Group.

During the year, several measures were introduced to reinforce the pharmaceutical industry by the national regulatory authorities related to the industry. Price-cutting measures were launched on 28 March, forcing the prices of some antibiotic drugs to decline, while measures taken by the government for restricting the use of antibiotic drugs by healthcare institutions at all levels had a greater impact on high-end antibiotic finished products. As a result, some healthcare institutions took a wait-and-see attitude and postponed their purchasing plans, which led to the continuous decrease in the prices of intermediate and bulk medicine products as well as the decline in the finished product prices to a certain extent. At the same time, given the impact from the rising raw material prices, production cost continued to climb, hence exerting a certain degree of pressure to the overall gross profit margin of the Group.

Nevertheless, the Group actively responded to the challenging business environment of the industry and made appropriate adjustments to its strategies to ensure steady development of its businesses. With the production line of intermediate products in the Inner Mongolia plant coming to a full operation during the year, its contribution to the Group gradually emerged. The Group also actively developed and adopted new production technology to further strengthen its vertical integration and the Inner Mongolia plant succeeded in producing HPGDane salt, one of the raw materials required to produce amoxicillin, which further cut production cost and improved efficiency. Meanwhile, the Group became the world's second pharmaceutical enterprise mastering the production technology of enzymatic amoxicillin API and rolling out the product to the market. Such production technology is ahead of those of the peers. In its production processes, neither sewage nor impurities will be created and less energy is required. The technology has not only reduced the cost but is also compliant with the rising environmental protection standards in China. The newly-built production capacity was also put into operation, effectively matching with the pace of developing the export and domestic distribution markets.

Regarding the rollout of new products, in light of more than 100 million patients suffering from diabetes in China, the main drug, recombinant human insulin, has a national market value of approximately RMB6 billion and is growing rapidly at an annual rate of 20% to 30%. Eyeing the growth potentials of the market, the Group made substantial investments in the development and distribution of relevant products. Given that our new products had completely the same efficacy as that of the imported ones and that the prices were competitive, both the sales and market share of our products developed steadily since the launch in the first half year. Furthermore, the Group had altogether 4 new products awarded the SFDA approval in the past year.

During the year, the Group focused on the development of international market, establishing offices in areas like Brazil, India, Dubai, Indonesia and Germany's Hamburg, and expanding efforts in export sales, which resulted in a higher proportion of overseas sales in the Group's total sales as compared to that of last year. With the continuous increase in demand for intermediate and bulk medicine from the overseas markets in addition to the fact that our products being offered at highly reasonable prices have successively received certifications from all over the world in recent years, we are confident that our export sales will gradually increase and accordingly contribute to the future growth of the Group.

The Group has always upheld and adhered to a prudent financial strategy, optimizing the financial structure and consolidating the working capital base through different financing channels in order to seize investment opportunities in a timely manner. During the year, the Group issued five-years convertible bonds to raise RMB790 million for the purposes of refinancing existing debts, expanding production capacity and further developing our businesses with the aim of maintaining the driving force for the Group's future developments.

According to the report of the World Bank, the current proportion of the medical and healthcare industry in China's GDP is far lower than the average value in the world and this is reflective of the immense room for the growth of the industry. It is expected that, with the announcement of the "Twelfth Five-Year" biomedical planning by the NDRC during the year, the central government will invest more than RMB40 billion in the biomedical industry in the next five years while providing vigorous support to local pharmaceutical enterprises to encourage R&D innovations. It is indicated in the major healthcare guidelines for 2012 as announced by the Ministry of Health in February 2012 that, China will expand the scope of implementation of the basic drug system and make efforts to improve the rural medical system. United Laboratories has already entered the rural markets and the proportion is still on the rise. This is conducive to the growth in the sales of the Group going forward.

Looking ahead, on the back of the favorable policies and a positive environment, the Group is cautiously optimistic toward the prospects of the industry. The Group will continue to expand sales networks, domestic and abroad, and actively explore new markets with growth potentials while strengthening penetration in the existing markets. Moreover, the Group will continue to bring its cutting edge in R&D into play to develop products of high margin and demand. Currently, we have 37 new products being developed, of which 11 products are applying for patent registration and 8 of them was approved for patent registration. The recombinant human insulin products will remain a key product of the Group and the Group will seize the momentum of the fast-growing demand for human insulin by investing substantial resources to capture greater market share. The Group's new insulin products have received relatively high international recognition in terms of quality and production technology and the Group will develop sales market overseas to expand revenue sources. As for intermediate and bulk medicine, the Group will try hard to increase overseas sales and accelerate the penetration of domestic rural markets and communities with the support of its vast sales network, experienced sales team and high brand awareness. At the same time, the Group will focus on driving the sales of the newly-packaged large-sized amoxicillin and ampicillin, enabling them to become new growth drivers boosting the sales of finished products. Through the above effective business strategies the Group is confident that we can achieve the economies of scale in a changing market, taking the lead in the steady development of the industry and ensuring the sustainable development of the Group.

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

2011 ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2011 together with the comparative figures for the year 2010 as follows:

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Turnover	3	**6,405,039**	6,502,817
Cost of sales		**(4,576,261)**	(3,934,763)
Gross profit		**1,828,778**	2,568,054
Other income	4	**89,531**	40,216
Other gains and losses	5	**11,018**	16,449
Selling and distribution expenses		**(1,026,182)**	(939,082)
Administrative expenses		**(460,226)**	(359,927)
Other expenses		**(110,257)**	(70,612)
Gain on fair value change of derivative components of convertible bonds		**5,276**	-
Finance costs	6	**(154,749)**	(91,818)
Profit before taxation		**183,189**	1,163,280
Taxation	7	**(78,916)**	(189,123)
Profit for the year attributable to owners of the Company	8	**104,273**	974,157
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**235,721**	139,083
Total comprehensive income for the year attributable to owners of the Company		**339,994**	1,113,240
Earnings per share (HK cents)	10		
Basic		**8.0**	78.2
Diluted		**8.6**	78.2

Consolidated Statement of Financial Position
At 31 December 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Non-current assets			
Property, plant and equipment	11	**5,638,860**	4,651,121
Prepaid lease payments		**110,493**	108,523
Goodwill		**3,740**	3,588
Intangible assets		**2,303**	3,270
Deposit for leasehold land		**51,474**	3,551
Deposits for acquisition of property, plant and machinery		**449,153**	136,185
Available-for-sale investment		**-**	-
Deferred tax asset		**24,323**	35,659
		6,280,346	4,941,897
Current assets			
Inventories		**1,537,955**	1,248,199
Trade and bills receivables, deposits and prepayments	12	**2,505,853**	2,567,263
Derivative financial instruments		**-**	2,268
Prepaid lease payments		**2,701**	2,588
Pledged bank deposits		**589,446**	381,624
Bank balances and cash		**948,604**	464,055
		5,584,559	4,665,997
Current liabilities			
Trade and bills payables and accrued charges	13	**2,286,763**	1,968,439
Derivative financial instruments		**1,517**	-
Tax payables		**33,837**	83,704
Borrowings – due within one year		**3,086,309**	2,350,074
		5,408,426	4,402,217
Net current assets		**176,133**	263,780
Total assets less current liabilities		**6,456,479**	5,205,677
Non-current liabilities			
Deferred tax liabilities		**75,841**	95,735
Convertible bonds	14	**693,097**	-
Embedded derivative components of convertible bonds	14	**260,920**	-
Borrowings – due after one year		**250,000**	-
		1,279,858	95,735
		5,176,621	5,109,942
Capital and reserves			
Share Capital	15	**13,015**	13,015
Reserves		**5,163,606**	5,096,927
Equity attributable to owners of the Company		**5,176,621**	5,109,942

Notes:

1. General

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

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

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

In the current year, the Group has applied, for the first time, the following new or revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

The Group has not early applied new or revised standards, amendments or interpretations that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax - Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

Except as described below, the directors of the Company anticipate that the application of the new and revised standards, amendments and interpretation will not have material impact on the results and financial position of the Group.

Amendments to HKFRS 7 "Disclosures - Transfers of Financial Assets"

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 might affect the Group's disclosures regarding transfers of financial assets in the future.

HKFRS 9 "Financial Instruments"

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

Key requirements of HKFRS 9 are described as follows:

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

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will not affect the amounts reported in the consolidated financial statements and will not result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning on or after 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. Turnover and Segment information

Turnover

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

	2011	2010
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**6,405,039**	6,502,817

Segment information

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

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

(a) Segment turnover and results:

Year ended 31 December 2011

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

Year ended 31 December 2010

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment Total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,710,429	2,875,592	1,916,796	6,502,817	-	6,502,817
Inter-segment sales	1,281,911	241,968	-	1,523,879	(1,523,879)	-
	2,992,340	3,117,560	1,916,796	8,026,696	(1,523,879)	6,502,817
Segment profit	575,280	276,440	436,139			1,287,859
Unrealised profit elimination	(4,790)	(2,807)	10,809			3,212
	570,490	273,633	446,948			1,291,071
Unallocated other income						7,264
Unallocated corporate expenses						(59,686)
Other gains and losses						16,449
Finance costs						(91,818)
Profit before taxation						1,163,280

Measurement

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

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

Intersegment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, sundry income, other gains and losses, corporate expenses and staff costs, and finance costs.

(b) Segment assets and liabilities:

	2011 ***HK$'000***	2010 *HK$'000*
Reportable segment assets		
Intermediate products	**6,293,598**	4,802,246
Bulk medicine	**2,754,091**	2,775,106
Finished products	**1,254,843**	1,146,936
Total segment assets	**10,302,532**	8,724,288
Reportable segment liabilities		
Intermediate products	**1,392,147**	958,160
Bulk medicine	**789,892**	927,533
Finished products	**104,724**	82,746
Total segment liabilities	**2,286,763**	1,968,439

Measurement

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

Reportable segment liabilities exclude derivative financial instruments, tax payables, borrowings, deferred tax liabilities, embedded derivative components of convertible bonds and convertible bonds.

(c) Reconciliation of reportable segment assets and liabilities

Reconciliation segment assets and liabilities are reconciled to the assets and total liabilities:

	2011	2010
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**10,302,532**	8,724,288
Unallocated assets:		
- Deferred tax asset	**24,323**	35,659
- Derivative financial instruments	**-**	2,268
- Pledged bank deposits	**589,446**	381,624
- Bank balances and cash	**948,604**	464,055
Total assets per consolidated statement of financial position	**11,864,905**	9,607,894
Liabilities		
Reportable segment liabilities	**2,286,763**	1,968,439
Unallocated liabilities:		
- Derivative financial instruments	**1,517**	-
- Tax payables	**33,837**	83,704
- Borrowings	**3,336,309**	2,350,074
- Deferred tax liabilities	**75,841**	95,735
Convertible bonds	**693,097**	-
Embedded derivative components of convertible bonds	**260,920**	-
Total liabilities per consolidated statement of financial position	**6,688,284**	4,497,952

(d) Other segment information

For the year ended 31 December 2011

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

For the year ended 31 December 2010

	Intermediate products	Bulk medicine	Finished goods	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Amortisation of prepaid lease payments	1,753	562	354	2,669
Amortisation of intangible assets	-	-	2,347	2,347
Depreciation of property, plant and equipment	327,264	47,152	39,694	414,110
Reversal of allowance for inventories	-	-	(295)	(295)
Gain on disposal of property, plant and equipment	-	2	-	2
Additions to prepaid lease payments during the year	104	-	-	104
Additions to property, plant and equipment during the year	535,808	258,192	95,706	889,706

(e) Geographical information

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

	Turnover from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC (Country of domicile)	**4,397,079**	4,544,686	**6,133,498**	4,776,369
Europe	**407,515**	437,571	**-**	-
India	**971,106**	936,256	**-**	-
Hong Kong	**66,195**	30,873	**122,525**	129,869
Middle East	**75,411**	91,922	**-**	-
South America	**114,202**	90,385	**-**	-
Other Asian regions	**330,169**	273,921	**-**	-
Other regions	**43,362**	97,203	**-**	-
	6,405,039	6,502,817	**6,256,023**	4,906,238

Notes:

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

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

(f) Information about major customers

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

4. Other income

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**11,637**	5,763
Sales of raw materials	**34,496**	15,232
Subsidy income	**40,401**	17,720
Sundry income	**2,997**	1,501
	89,531	40,216

5. Other gains and losses

	2011	2010
	HK$'000	*HK$'000*
Net foreign exchange gain	**16,572**	14,179
Net (loss) gain on disposal of property, plant and equipment	**(1,769)**	2
Fair value change on derivative financial instruments	**(3,785)**	2,268
	11,018	16,449

6. Finance costs

	2011	2010
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	**185,930**	114,818
Interest on convertible bonds wholly repayable within five years	**13,799**	-
	199,729	114,818
Less: amounts capitalized in property, plant and equipment	**(44,980)**	(23,000)
	154,749	91,818

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.01% (2010: 5.31%) per annum to expenditure on qualifying assets.

7. Taxation

	2011	2010
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,854**	10,953
PRC enterprise income tax	**52,547**	159,057
PRC withholding tax	**26,127**	11,960
Overprovision in prior years		
Hong Kong	**(220)**	(606)
PRC	-	(2,734)
	86,308	178,630
Deferred tax	**(7,392)**	10,493
	78,916	189,123

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

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

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

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

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax charge of HK$6,233,000 (2010: HK$50,631,000) on the undistributed earnings has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2011.

8. Profit for the year

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Provision of (reversal of) allowances for inventories	**65,322**	(295)
(Reversal of) provision of allowances for doubtful debts, net	**(8,231)**	1,583
Auditor's remuneration	**3,680**	3,450
Amortisation of prepaid lease payments	**2,697**	2,669
Depreciation and amortisation		
Depreciation of property, plant and equipment	**453,460**	414,110
Amortisation of intangible assets (included in administrative expenses)	**1,082**	2,347
	454,542	416,457
Less: amount included in loss on temporary production suspension	**(11,696)**	-
Less: amount included in research and development expenditures	**(6,361)**	(471)
	436,485	415,986
Operating lease payments in respect of rented premises	**3,020**	1,860
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**649,057**	552,724
Retirement benefit costs	**55,813**	41,723
	704,870	594,447
Less: amount included in research and development expenditures	**(7,856)**	(4,772)
	697,014	589,675
Loss on temporary production suspension due to break down of machineries (included in other expenses)	**22,588**	1,510
Research and development expenditures (included in other expenses)	**74,217**	52,372

Note: During the year, allowances for certain of the intermediate products and bulk medicine have been made based on assessments of their net realisable values.

9. Dividend

	2011 *HK$'000*	2010 *HK$'000*
Final dividend paid for 2010 of HK18 cents (2009: HK19 cents) per share	**234,270**	237,500
Interim dividend paid for 2011 of HK3 cents (2010: HK12 cents)	**39,045**	150,000
	273,315	387,500

The Board does not recommend payment of final dividend for the year ended 31 December 2011 (2010:HK18 cents).

10. Earnings per share

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

Earnings

	2011 *HK$'000*	2010 *HK$'000*
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	**104,273**	974,157
Effect of dilutive potential ordinary shares: Interest on convertible bonds	**13,799**	-
Gain on fair value change of derivative components of convertible bonds	**(5,276)**	-
Earnings for the purposes of dilutive earnings per share	**112,796**	974,157

Number of shares

	2011 *'000*	2010 *'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,301,500**	1,246,144
Effect of dilutive potential ordinary shares: Convertible bonds	**17,734**	-
Weighted average number of ordinary shares for the purpose of diluted earning per share	**1,319,234**	1,246,144

11. Movements in property, plant and equipment

During the year, the Group spent approximately HK$1,240,469,000 (2010: HK$889,706,000) on the acquisition of factory premises and manufacturing plant, in order to upgrade its manufacturing capabilities.

12. Trade and bills receivables, deposits and prepayments

	2011	2010
	HK$'000	*HK$'000*
Trade and bills receivables	**2,051,064**	2,287,506
Other receivables, deposits and prepayments	**472,577**	304,738
Less : allowance for doubtful receivables	**(17,788)**	(24,981)
	2,505,853	2,567,263

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

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

	2011	2010
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**527,689**	638,200
31 to 60 days	**247,935**	345,011
61 to 90 days	**90,433**	69,956
91 to 120 days	**122,432**	9,113
121 to 180 days	**76,311**	7
Over 180 days	**4,432**	1,581
	1,069,232	1,063,868
Bills receivables		
0 to 30 days	**115,130**	119,024
31 to 60 days	**124,258**	208,601
61 to 90 days	**126,332**	179,965
91 to 120 days	**248,146**	250,037
121 to 180 days	**348,513**	440,427
Over 180 days	**14,960**	603
	977,339	1,198,657

13. Trade and bills payables and accrued charges

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

	2011	2010
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**813,629**	750,506
91 to 180 days	**467,615**	242,167
Over 180 days	**22,070**	4,436
	1,303,314	997,109
Bills payables		
0 to 90 days	**108,261**	301,815
91 to 180 days	**157,859**	235,360
	266,120	537,175
Other payables and accruals	**297,389**	316,015
Payables in respect of the acquisition of property, plant and equipment	**419,940**	118,140
	2,286,763	1,968,439

Included in the trade payables and other payables above are HK$362,724,000 and HK$55,058,000 (2010: HK$498,642,000 and HK$31,223,000) respectively that has been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period.

Included in the Group's other payables and accruals are other payables with a carrying amount of HK$1,759,000 (2010: HK$1,212,000) which are denominated in Euro, being a foreign currency of the respective group entities.

14. Convertible bonds

On 14 November 2011, the Company issued RMB denominated US$ settled 7.5% convertible bonds with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "Bonds"). The Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest.

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

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

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

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

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

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

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

	Liability component	Embedded derivatives
	HK$'000	*HK$'000*
At 1 January	-	-
Issue of convertible bonds	705,334	265,107
Expenses on issue of convertible bonds	(28,910)	-
Interest charged	13,799	-
Exchange realignment	2,874	1,089
Gain arising on changes of fair value	-	(5,276)
At 31 December	693,097	260,920

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

	31 December 2011	14 November 2011
Share price of the Company	HK$4.47	HK$4.95
Exercise price	HK$7.20	HK$7.20
Remaining life		
Risk-free rate	3.371%	3.199%
Expected volatility	48.30%	46.72%
Expected dividend yield	4.83%	4.33%

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

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

15. Share capital

	Number of shares *‘000*	Amount *HK$’000*
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	3,800,000	38,000
Issued and fully paid:		
At 1 January 2010	1,200,000	12,000
Issue of shares	101,500	1,015
At 31 December 2010 and 31 December 2011	**1,301,500**	**13,015**

Pursuant to the Placing and Subscription Agreements entered into between the Company, its parent company and the placing agent dated 29 April 2010 and 15 September 2010, the parent company of the Company agreed to sell 100,000,000 shares and 51,500,000 shares respectively in the Company by placing to independent placees. At the same time, the parent company of the Company agreed to subscribe 50,000,000 new ordinary shares of HK$0.01 each in the Company at HK$8.50 and 51,500,000 new ordinary shares of HK$0.01 each in the Company at HK$15.22 respectively. The net proceeds to be received by the Company from the subscriptions amounting to approximately HK$416 million and HK$775 million respectively will be applied for the expansion of the Group's existing production facilities and other capital expenditures. Details of the placings and subscriptions are set out in the Company's announcements dated 29 April 2010 and 15 September 2010 respectively.

16. Capital commitments

At 31 December 2011, the Group had commitments for capital expenditure of HK$1,182,746,000 (2010: HK$333,584,000) in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2011, the Group's turnover was approximately HK$6,405.0 million, a decrease of 1.5% as compared to last year. The profit attributable to shareholders was approximately HK$104.3 million, representing a decrease of 89.3% as compared to last year. The decrease was mainly due to (i) restricted use of antibiotics medicines and the price reduction policies on finished products launched by the government, (ii) a continued drop in the average selling prices of bulk medicine and intermediate products, (iii) write-down of inventory at year end and (iv) an increase in finance costs as a result of a rise in bank borrowing rates in 2011, and increase in loans and interest accrued on the Group's convertible bonds issued in November 2011. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products decreased 0.8%, 1.6% and 0.1% respectively as compared with last year. Segmental profit of intermediate products, bulk medicine products and finished products decreased by 83.9%, 94.8% and 33.5% respectively as compared with last year.

Reviewing 2011, with the problem of the European debt crisis intensifying in the second half year, the global financial market was in great turmoil and economies within the US were yet to be recovered from the financial crisis, leading to further decline in the demand for all products from the US and European markets. Moreover, the Chinese financial institutions continued to adopt macroeconomic regulation and control measures which resulted in an internal economic contraction in China. Under such double blow, China's enterprises were in face of severe challenges. The Group, given its solid base and the adoption of effective contingency measures, was capable of keeping hold on its leading position in the China and global markets for continuous growth, albeit a substantial decrease in results over the previous year. The Group's operating conditions during the year are summed up in the following points:

<u>Decline in intermediate and bulk medicine product prices</u>
Given the State's introduction of restrictions on antimicrobial agents and price cuts for finished products, prices of intermediate and bulk medicine products continued to decline in the second half year. During the year, the Inner Mongolia plant of the Group was fully put into production, increasing the production capacity for intermediate and bulk medicine products and, coupled with the effective marketing strategies taken by the Group's sales team, further improving the sales of intermediate and bulk medicine products of the Group and accordingly offsetting the adverse impact as a result of price cuts. Therefore, the Group recorded only a modest decrease in the segmental turnover of intermediate products and bulk medicine as compared to last year.

<u>Decrease in gross profit of intermediate and bulk medicine products</u>
During the year, raw material prices and staff salaries continued to rise and hover at high levels, hence increasing operating costs and, in addition to the continuous decline in intermediate and bulk medicine products in the second half year, resulting in the decrease in the overall gross profit of the Group as compared to both the first half year and the previous year and exerting pressure on the Group's results for the second half year.

<u>Increase in finance costs</u>
In the second half of the year, China's financial institutions continued to introduce macroeconomic regulation and control measures and tightened their purse strings. As a result, the overall borrowing and lending interest rates of Chinese banks stayed at high levels and continued to rise through the second half, which increased the finance costs of the Group. The Group issued 7.5% RMB-denominated USD-settled convertible bonds with a principal amount of RMB790,000,000 due in 2016 on 14 November 2011 with the aim of relieving, stabilizing and reducing the finance costs of the Group, hence improving the flow of the Group's working capital. Please refer to the Company's public announcement published on 14 November 2011 for details regarding the convertible bonds.

<u>Growth in export sales of intermediate and bulk medicine products</u>
During the year, the Group developed the international market and established offices in areas like Brazil, India, Dubai, Indonesia and Germany's Hamburg, further expanding the overseas market share of the Group's intermediate and bulk medicine products and increasing the export turnover for the year.

Rollout of recombinant human insulin products

The Group's recombinant human insulin products were officially launched in the market during the year. Given that our products had completely the same efficacy as that of the imported ones and that the prices were competitive, the Group was successful in obtaining orders and securing market shares starting from the year and the bidding at provincial and regional hospitals, which was gradually expanded, was smoothly done during the year.

Liquidity and Financial Resources

As at 31 December 2011, the Group had pledged bank deposits, cash and bank balances amounted to HK$1,538.1 million (2010: HK$845.7 million).

As at 31 December 2011, the Group had interest-bearing bank borrowings of approximately HK$3,336.3 million (2010: HK$2,350.1 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK$1,505.1 million are fixed rate loans while the remaining balance of approximately HK$1,831.2 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2011, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2011	2010
	HK\$'000	*HK\$'000*
Property, plant and equipment	**847,099**	1,373,311
Prepaid lease payments	**65,227**	111,111
Bills receivables	**118,663**	230,576
Pledged bank deposits	**589,446**	381,624
	1,620,435	2,096,622

As at 31 December 2011, current assets of the Group amounted to approximately HK$5,584.6 million (2010: HK$4,666.0 million). The Group's current ratio was approximately 1.03 as at 31 December 2011, as compared with 1.06 as at 31 December 2010. As at 31 December 2011, the Group had total assets of approximately HK$11,864.9 million (2010: HK$9,607.9 million) and total liabilities of approximately HK$6,688.3 million (2010: HK$4,498.0 million), representing a net gearing ratio (calculated as total borrowings and convertible bonds less pledged deposits and cash and bank balances to total equity) of 53.2% as at 31 December 2011, as compared with 29.4% as at 31 December 2010.

Currency Exchange Exposures

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

Contingent Liabilities

As at 31 December 2010 and 2011, the Group had no material contingent liabilities.

Outlook for 2012

Looking into 2012, we expect that the European debt crisis will stay unresolved this year, hence weakening the overall global market and economy, and the world's financial and capital markets will remain fragile and affect China's export performance. The Group's outstanding management will tackle the difficulties ahead with a cautiously optimistic attitude to ensure the continuous growth of the Group. We will continue to develop our businesses on the belief that there is always an opportunity in a crisis.

<u>Price trend for intermediate, bulk medicine and finished products</u>
The Group expects that China's pharmaceutical market will continue to be influenced by national policies and national regulatory authorities may re-launch restrictions on antimicrobial agents and price cuts for finished products, hence product prices will continue to decline. However, on the other hand, the national environmental protection requirements toward the production of pharmaceutical manufacturing enterprises will gradually increase, as a result of which more domestic enterprises engaged in the production of intermediate and bulk medicine products may be forced to terminate production, hence creating a supply crunch which may provide certain support to intermediate and bulk medicine product prices. Also, the price level of intermediate and bulk medicine products are at the lowest by the end of year 2011, thus making most companies in a loss position. Therefore, the Group expects that there will be improvement in the intermediate and bulk medicine product prices going forward.

The Group's finished products enjoy considerable reputation in the China market and major medical institutions and the public have a certain degree of confidence in the products of the Group. Therefore, our products have a stable market share in China and sales are guaranteed to a certain extent. After the implementation of price-cutting measures on finished products by the national regulatory authorities over the past few years, the Group expects that the extent of price cuts in 2012 will be milder than in the past and, given that most of the Group's best-selling products are individual pricing, the turnover of pharmaceutical products will be relatively stable.

<u>Bringing low-cost advantages into play</u>
The vertically-integrated production model of the Group and the operation of the production base in Inner Mongolia have become mature and complete by further enhancing our production capacity in intermediate products, leading to further decline in the Group's production cost. Despite the continuously hovering raw material prices, leading production technology is being adopted by the Group to increase efficiency and production capacity, which brought about the decrease in production cost, offsetting part of the adverse impact as a result of the rising raw material prices, hence more advantageous relative to peers. The Group is committed to reduce its production cost in order to cope with the fluctuation in prices of intermediate and bulk medicine products, which helps the Group to continue capturing market share from competitors. While the Group will confront a difficult business environment due to lower product prices in the short run, the low-cost strategy helps the Group to further exploit the price advantages of its products in the market and, in the long run, other competitors will leave the market given that no more profits can be reaped, hence making way for the Group's further domination of the market.

<u>Developing the international market of intermediate and bulk medicine products</u>
The Group has established regional offices in countries and areas, like Brazil, India and Dubai, as its stepping stones to enter the global market. The Group will strengthen the sales function of its overseas offices, making room for further growth in the Group's results and diversifying regional sales risks, bringing growth drivers to the Group.

<u>Developing new products and expanding the sales of recombinant human insulin products</u>
The Group will continue to bring its cutting edge in R&D into play to develop products of high margin and demand. There are currently 37 types of new products being developed, of which 11 are applying for patent registration and 8 of them was approved for the patent registration. With the recombinant human insulin products remaining a key product of the Group, the Group will seize the momentum of the fast-growing demand for human insulin by investing substantial resources in order to capture greater market share. The Group's new insulin products have attained relatively high international recognition in terms of quality and production technology and the Group will develop overseas market to expand revenue sources.

Diversifying financing channels

The Group expects that the Chinese financial institutions will continue to implement macroeconomic regulation and control and the funding needs for capital expenditure in Inner Mongolia's plant for enhancing its production capacity, thus the cost of bank borrowings will stay at high levels. The Group will, depending on the market conditions, consider raising funds by different financing channels to optimize the Group's capital base so as to control overall finance costs.

Employees and Remuneration

As at 31 December 2011, the Group had approximately 10,500 (2010: 10,500) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2011.

DIVIDEND

During the year, the Company declared an interim dividend of HK3 cents (2010: HK12 cents) per share and paid to the shareholders of the Company in September 2011. The Board does not recommend payment of final dividend for the year ended 31 December 2011 (2010: HK18 cents).

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance in the interest of its shareholders.

Except for part of the following deviations, the Company has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices as stated in Appendix 14 to the Listing Rules for the year ended 31 December 2011, except for the deviation as below.

Code Provision B.1.3

Code provisions B.1.3 of the Code of Corporate Governance Practices stipulate that the terms of reference of the Remuneration Committee should include, as a minimum, those specific duties as set out in the respective code previsions.

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of three independent non-executive directors, namely Messrs. Chong Peng Oon, Huang Bao Guang and Song Ming. The Audit Committee has reviewed and discussed matters relating to internal controls and financial statement, including a review of the audited financial statement for the year ended 31 December 2011.

BOARD OF DIRECTORS

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

On behalf of the Board
Choy Kam Lok
Chairman

Hong Kong, 27 March 2012