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

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

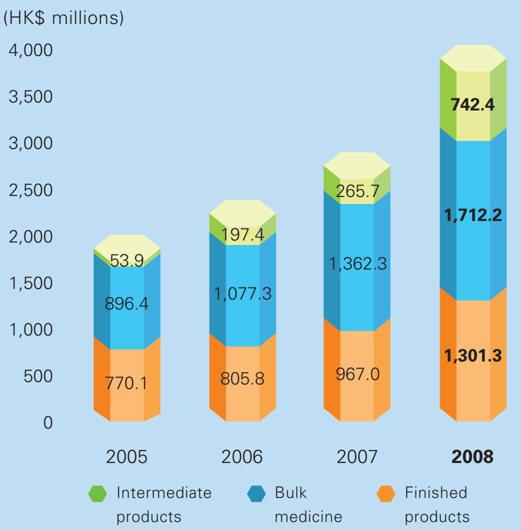
Annual Report 08

FINANCIAL HIGHLIGHT

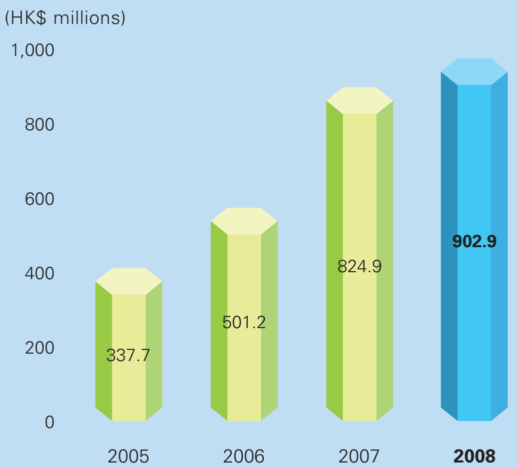
(HK$ millions, except where otherwise stated)	**2008**	2007	% Increase/ (Decrease)
Turnover	**3,755.9**	2,594.9	44.7%
EBITDA	**902.9**	824.9	9.5%
Profit before taxation	**532.5**	558.3	(4.6%)
Profit attributable to equity holders of the Company	**430.2**	510.5	(15.7%)
Earnings per share – basic (HK Cents)	**35.8**	48.0	(25.4%)
Return on average total equity (%)	**16.3**	27.1	(39.9%)
Net gearing ratio* (%)	**57.2**	39.9	43.4%

* Note: calculated as total borrowings less cash and bank balances to total equity

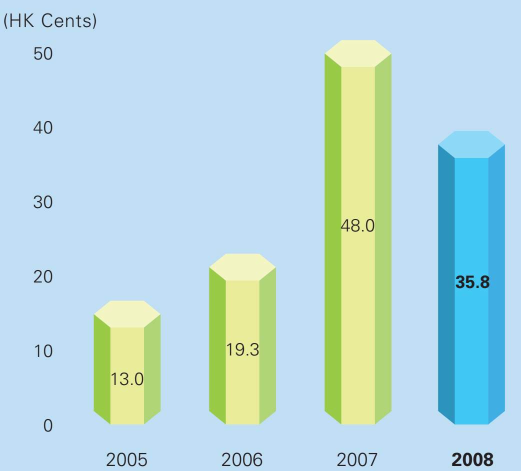
TURNOVER



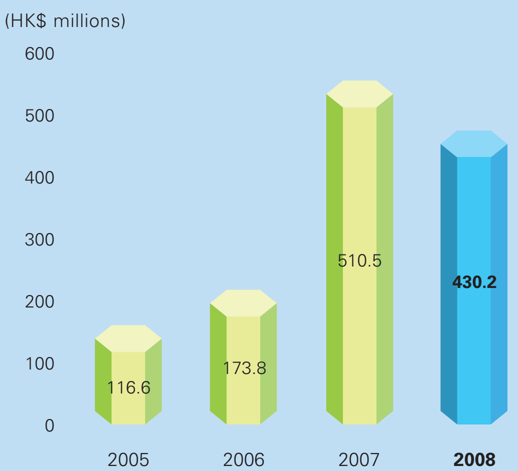
EBITDA



EARNINGS PER SHARE – BASIC



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



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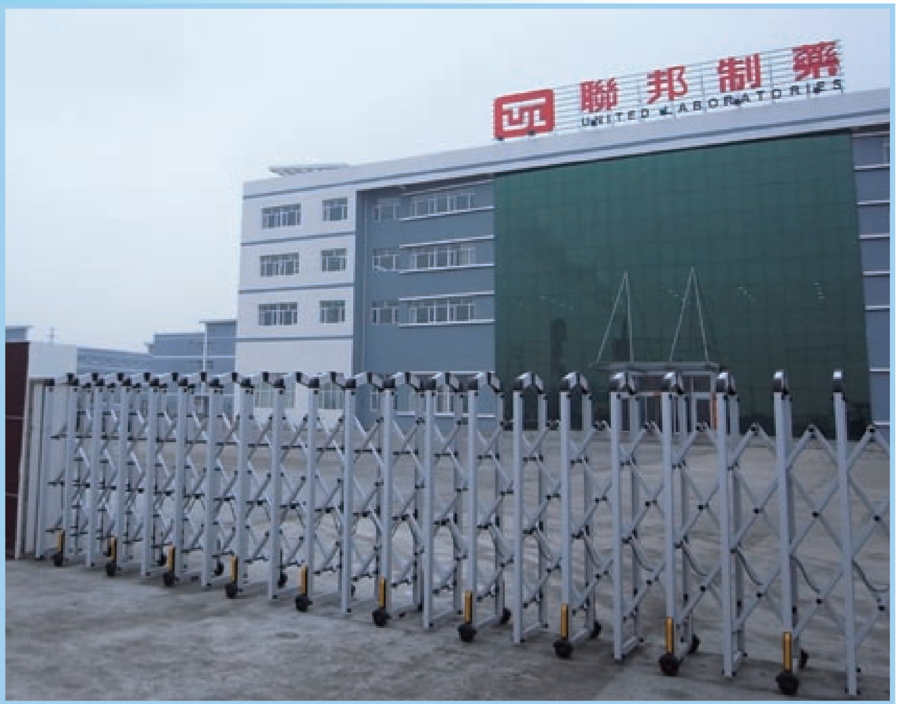


The brand new look
of our factory in Inner Mongolia



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan

Non-executive director

Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Mr. Song Ming

COMPANY SECRETARY

Mr. Leung Wing Hon *(CPA)*

AUTHORISED REPRESENTATIVES

Mr. Choy Kam Lok
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

COMPLIANCE ADVISER

Piper Jaffray Asia Limited

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

China

HSBC Bank (China) Company Limited,
Guangzhou Branch
China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Industrial and Commercial Bank of China Ltd.,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
China Citic Bank Corporation Limited,
Chengdu Zijing Sub-branch

Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
Wing Lung Bank Limited
Hang Seng Bank Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

www.tul.com.cn

CHAIRMAN'S STATEMENT

Mr. Choy Kam Lok
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I am pleased to present to all shareholders the annual results of the Company and its subsidiaries ("United Laboratories" or the "Group") for the year ended 31 December 2008.

Despite the tremendous changes in the global economy, the overall sales of the Group achieved strong growth in 2008. During the year, the Group recorded a turnover of HK$3.76 billion, representing an increase of 44.7% as compared to last year. The Group's gross profit and EBITDA grew by 18.6% and 9.5% to HK$1.43 billion and HK$0.9 billion respectively. Profit attributable to shareholders decreased to HK$430 million, which was mainly due to rapid fall in the prices of intermediate products and bulk medicine in the second half of the year that caused a decrease in gross profit margin. As global financial tsunami broke in the second half of 2008, global currencies such as Euro and Indian Rupee subsequently and are sharply depreciated and the exchange rate between United States dollars and Renminbi was continuously weakened. The sudden contraction of global economic activities resulted in a decline in market prices, although negative impact experienced by the PRC market was not as serious as compared to other markets, a slight decline in the fourth quarter was still inevitable. The adverse effect brought by the financial tsunami caused spiraling down of the market prices of intermediate products and bulk medicine in the second half of the year, which consequently resulted in a decrease in the Group's gross profit margin in that respect. Earnings per share for the year ended 31 December 2008 is HK35.8 cents. The Board recommended the payment of a final dividend of HK15 cents per share for the year ended 31 December 2008.

CHAIRMAN'S STATEMENT

During the year of 2008, the sales of the Group's three core products, namely intermediate products, bulk medicine and finished products, continued to maintain an upward trend. The sales of intermediate products and bulk medicine were particularly strong last year. This was mainly because the Group's production plant in Inner Mongolia was officially put into operation at the end of 2007, which greatly enhanced the capacity of intermediate products manufacturing. The sales of finished products also had a rapid growth during the year. The Group currently has five production bases, namely the intermediate products plant in Chengdu, the bulk medicine plant in Zhuhai, the finished products plant in Zhongshan, the finished products plant in Hong Kong, and the comprehensive integrated production plant in Inner Mongolia that initially manufactures intermediate products.

Looking ahead to year 2009, we anticipate a sustainable growth in the global pharmaceutical markets, as there will be a solid demand for medicines in the market, though the global economy is still gloomy due to the adverse influences of the financial crisis. Moreover, the State Council of the People's Republic of China ("PRC") announced in early 2009 that it would inject RMB850 billion in the forthcoming three years for the reform of PRC's medical and sanitary system, with emphasis on improvement of the medical insurance system and basic medical services. The goal is to increase the medical insurance coverage to 90% of its population, and to increase the average annual premium per capita from RMB80 to RMB120 by 2011. The new medical reform indicates that the PRC government will gradually increase its investment in the medical care system in an attempt to build a complete medical insurance network strong enough to serve the whole population. That also implies sustainable growth for PRC's medicine market and valuable opportunities for pharmaceutical companies.

In view of this, the Group will proactively improve the production efficiency and utilization rate of each of its production plants and expedite the extension project of existing production bases, and it will also boost the sales of its products and increase brand awareness to expand the market share of its key products. The management of the Group will follow the original plan to continue with Phase II construction of Inner Mongolia plant and expansions of Zhongshan and Zhuhai plants, in order to leverage on the benefit of vertically integrated production and operation. The Group will also strive to improve the existing production techniques, strengthen cost control, cut cost and increase production efficiency, thereby raising the gross profit of the Group.

Meanwhile, the Group will make efforts to develop and improve its sales network, boost the sales of its new products, in particular the sales of specialized products, and raise the proportion of sales of its new products and OTC drugs to maximize its profits. The Group has put a great deal of resources to recruit more sales personnel and to expand its sales network in 2008. The management expects to obtain fruitful results in 2009 from this investment in the previous year. Moreover, despite both its finished product plant in Zhongshan and bulk medicine plant in Zhuhai have received the accreditation as a "High and New Technology Enterprise", the Group will continue to invest in research and development so as to give impetus to its future development. In respect of overseas sales, the Group will continue to preserve its existing share in mature markets, improve its distribution system, safeguard its distributors' interests and progressively explore immature markets to seek and select potential distributors to establish an extensive marketing network by integrating points of sales to expand market coverage and enhance its brand name, especially its position among other PRC pharmaceutical companies. In respect of cost control, the Group will cut costs further and improve efficiency, and it will also provide its staff with more training on crisis consciousness, conduct feasibility study of technical improvements on existing products and refine management of post operations.

As a large market-leading and socially responsible pharmaceutical enterprise, the Group undertakes that it will not conduct any layoff or salary cut. Our staff is an important asset of the Group, and their contributions are sincerely valued by the management.

I would like to extend my gratitude to our staff for their tireless and continuous efforts, which drive the constant improvement in the results of United Laboratories. I also take this opportunity to thank the shareholders for their enormous support to the Group, and their affirmation to the Group's future business development plans and strategies. In rewarding the trusts vested by shareholders, the entire United Laboratories team will continuously strive to become the leading and largest high quality pharmaceutical manufacturer in the PRC, and bring fruitful returns to shareholders.

Choy Kam Lok
Chairman

Hong Kong, 7 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

Financial Performance

For the year ended 31 December 2008, the Group achieved excellent results and recorded a turnover of approximately HK$3,756 million, an increase of 44.7% as compared to last year. The profit attributable to shareholders was approximately HK$430 million, representing a decrease of 15.7% as compared to last year. The decrease in net profit for the year is mainly due to the decrease in gross profit margin resulted from the decrease in average price of intermediate and bulk medicine products, increase in selling and distribution expenses and financial costs and increase in effective tax rate as compared with last year. The increase in effective tax rate during the year was mainly due to the decrease in the profit for the year of Chengdu's subsidiary of the Group, which is still within tax exemption period under the PRC income tax regulation, and provision of deferred taxation amounting to HK$22.4 million regarding the PRC income tax on undistributed earnings of the PRC subsidiaries of the Group. The Group's overall gross profit margin and net profit margin had dropped by 8.4% and 8.2% respectively, as compared with last year. For the year ended 31 December 2008, segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 23.6%, 25.0% and 34.6% respectively, as compared with last year. Segment results of bulk medicine products and finished products increased by 34.7% and 48.4% respectively, but intermediate products decreased by 57.6%.

The Group has successfully established long and stable business relationships with its customers, hospitals and distributors, and commenced to open up rural markets during the year, which resulted in continuing increase in the Group's turnover and market share in the PRC markets. During the year, overseas sales (including Hong Kong) were approximately HK$836 million, representing an increase of 37.9% as compared with last year and contributed approximately 22.3% of the Group's total turnover. The Group has adopted a vertically integrated production operation which in turn maximized the economies of scale and enhanced the Group's profitability.

Business Review

The global financial tsunami that wrought havoc in the second half of 2008 has led to a flagging global economy and a sluggish demand for all kinds of commodities in its wake. As a result, the PRC market inevitably contracted but showed comparative advantages over the other regions. As all sectors in the world suffered in slump, the Group took all difficulties in its stride, minimizing the negative impact on its results. Focusing on the domestic market of the PRC, the Group strived to expand its market share in bulk medicines and intermediate products, and achieved preliminary results in opening up rural markets. As a result, our turnover reached historic high. The following are the factors that affect the Group's turnover and results for the year:

1. Increase in sales of bulk medicines and intermediate products but decrease in their prices

   As one of the key manufacturers of bulk medicines for 6-APA and antibiotics in the world and the PRC, the Group is in a leading position in the global and Chinese markets. During the year, the Group's significant increase in its productivity of intermediate products was primarily due to the commencement of the full-scale production of its Inner Mongolia plant. As the PRC government intensified its efforts in the enforcement of environmental protection laws and regulations, many medium and small-sized manufactures for intermediate products and bulk medicines of antibiotics were forced to cease production during the year. Leveraging on its advanced production lines and top product quality, the Group successfully expanded its market share in intermediate products and bulk medicines and increased its turnover. The external sales of intermediate products and bulk medicines increased by 50.8% as compared with last year.

Although the Group successfully increased its market share and sales in intermediate products and bulk medicines during the year, their average prices fell as compared to the last year, especially in the second half of the year. During the first half of the year, the supply of the intermediate products and bulk medicines rebounded to normal level led to the drop in prices as compared to the higher price of last year. In the second half of the year, as the financial turmoil took place, most of the finished product manufacturers or agents remained cautious and were not willing to increase their inventories. This triggered the substantial slide in market demand for intermediate products and bulk medicines in the fourth quarter, which in turn led to further drop in their prices. Decrease in prices of intermediate products and bulk medicines resulted in the decrease in the Group's gross profit margin for the year by 8.4% as compared to the previous year, one of the factors contributing to the decline in our results for the year.

2. Export business weakened in the second half year

As global financial tsunami started to surge in the second half of the year, global currencies, such as Euro and Indian Rupee, subsequently and are sharply depreciated and resulted in decline in exporting market prices of intermediate and bulk medicines products. In addition, the weakened exchange rate between United States dollars and Renminbi led to a decrease in demand for intermediate and bulk medicine products by manufacturers, which caused negative effect to the Group's results in the second half of 2008.

3. Expansion in sales team and exploration in rural markets

During the year, the Group aggressively extended much effort in expanding into the rural markets and recruited additional sales persons, so as to strengthen sales channels in rural areas. For the year ended 31 December 2008, the Group's results from finished products increased by 48.4% over last year. Meanwhile, the Group's selling and distribution expenses increased by 45.3% as compared with last year. The increase in selling and distribution expenses was attributable to expansion in sales team and expansion in rural markets. As the Group's exploration of rural markets was still at its infancy in 2008, and it has not attained the optimal efficiency in terms of the operating costs, therefore the Group's net profit for the year was reduced.

4. Increase in finance costs

For the year ended 31 December 2008, the Group's borrowings and finance costs increased by 28.7% and 46.5% respectively as compared with last year, and the increase in finance costs was due to the increase in borrowings and the interest rate as compared with last year. The increased borrowings were used to expand and enhance the Group's productivity.

Despite the decline of results for the year, the Group believes it has done much better than its competitors and managed to reduce the impact of the economic turmoil to the greatest possible extent, for the benefit of its shareholders.

Liquidity and Financial Resources

As at 31 December 2008, the Group had bank deposits, cash and bank balances amounted to HK$452 million (2007: HK$755 million).

As at 31 December 2008, the Group had interest-bearing bank borrowings of approximately HK$1,776 million (2007: HK$1,380 million), which were denominated in Hong Kong dollars and Renminbi with maturity of within five years. Bank borrowings of approximately HK$245 million are fixed rate loans while the remaining balance of approximately HK$1,531 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 2008, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2008	2007
	HK$'000	HK$'000
Property, plant and equipment	**897,499**	557,284
Prepaid lease payments	**120,942**	72,025
Bills receivables	**122,249**	150,754
Pledged bank deposits	**286,045**	354,211
	1,426,735	1,134,274

Certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group. The trust receipt loans are secured by the Group's leasehold land and buildings and bank deposits.

As at 31 December 2008, current assets of the Group amounted to approximately HK$2,430 million (2007: HK$2,213 million). The Group's current ratio was approximately 0.84 as at 31 December 2008, as compared with 1.27 as at 31 December 2007. As at 31 December 2008, the Group had total assets of approximately HK$6,170 million (2007: HK$4,750 million) and total liabilities of approximately HK$3,354 million (2007: HK$2,298 million), representing a net gearing ratio (calculated as total borrowings less cash and bank balances to total equity) of 57.2% as at 31 December 2008, as compared with 39.9% as at 31 December 2007.

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 2008 and 31 December 2007, the Group had no material contingent liabilities.

Outlook for 2009

The global economic downturn will last through 2009 as a result of the financial tsunami. In the first half of 2009, the PRC government launched the multi-trillion economic stimulus package, which included plans for accelerating medical system construction and expanding medical care coverage. The management expected that the medical and pharmaceutical sector would be less affected than other sectors and the sales of the whole sector will continue to grow. With our robust vertically-integrated production model and a seasoned team of sales veterans, the management is confident that we can withstand the adverse impacts of the economic storm while expanding our market share and increasing turnover.

The prospect of intermediate products and bulk medicine market

The management expected that the prices for the intermediate products and bulk medicine would remain stable and the suppressed prices will gradually return to a more reasonable level. The markets of intermediate products and bulk medicine have entered into a stage of relentless elimination, in which many small and medium-sized drug makers, according to the management's estimation, will be gradually phased out, leaving their share of the market to be taken over by large high-quality pharmacy manufacturers. As a main producer of 6-APA and antibiotics bulk medicine in China, the Group will increase its market share and continue to dominate the market in 2009.

As a result of the economic downturn, we expect the prices of the raw materials and production costs will continue to drop. Moreover, the economic benefits arising from the large-scale vertically integrated production and operation will help to bring down the production costs of the Group, which will in turn expand the Group's competitive edge and fortify its defence against the possible impact from the further decrease in product price and thus increase our gross profit margin.

The prospect of finished products market

The Group will continue to develop the rural markets in an effort to expand its market share. With the launch of the economic stimulus package by the PRC government, under which the plan to increase drugs consumption will be implemented, the management expects that the sales of our finished products will continue to grow. As a result, the Group will continue to reinforce its sales team in 2009 in an effort to lay a solid foundation for the future penetration into the rural markets.

Meanwhile, the Group is currently developing 30 high-end products, such as drugs for the treatment of hepatitis B, hypertension and diabetes and immunity enhancement, which will greatly diversify the Group's product lines and generate higher turnover.

Loan Agreement with Covenants Relating to Specific Performance of the Controlling Shareholder

During the year ended 31 December 2008, a wholly-owned subsidiary of the Company has entered into a banking facilities agreement with an aggregate facility amount of RMB335,000,000 and duration of five years. The banking facilities agreement imposes, among other matters, Mr. Choy Kam Lok ("Mr. Choy"), the controlling shareholder of the Company, to hold a minimum of 51% shareholding in the Company. As at the date of this annual report, Mr. Choy beneficially owns (directly or indirectly) 72.08% of the entire issued share capital of the Company.

Employees and Remuneration

As at 31 December 2008, the Group had approximately 7,300 (2007: 6,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

From left to right: 1. Ms. Peng Wei 2. Mr. Song Ming 3. Mr. Chong Peng Oon 4. Mr. Choy Kam Lok 5. Mr. Huang Bao Guang 6. Mr. Leung Wing Hon 7. Ms. Choy Siu Chit 8. Mr. Tsoi Hoi Shan

DIRECTORS

Executive directors

Mr. Choy Kam Lok (蔡金樂), aged 67, is an executive director and the Chairman of the Company. Mr. Choy has over 30 years of experience in the pharmaceutical manufacturing business in Hong Kong and the PRC. He was engaged in the trading of pharmaceutical products prior to the Choy Family's acquisition of United Laboratories Hong Kong in the 1990's. Mr. Choy is a committee member of the Guangdong Political Consultative Conference (廣東省政協委員), a member of 7th Committee of the All-China Federation of Returned Overseas Chinese (中國僑聯第七屆委員會會員) and a visiting professor of the Wuhan Tongji Pharmaceutical University (武漢同濟醫科大學). Mr. Choy is also the Deputy Chairman of the board of directors of Shenyang Medical University (瀋陽藥科大學) and a guest professor of its Business Administration School. He was named an honorary citizen of Zhuhai City (珠海市榮譽市民) in 1998 and appointed a council member of the China Overseas Friendship Association (中華海外聯誼會理事) in 2001. Mr. Choy is responsible for the overall business planning and strategic development of the Group.

Ms. Peng Wei (彭韙), aged 45, is an executive director and the general manager of the Company. Ms. Peng graduated from the department of medicine of Xi'an Medical College (西安醫學院), PRC in 1983 and was granted a degree of EMBA from Lingnan College of the Zhongshan University (中山大學嶺南學院) in 2006. She is currently a member of the Zhuhai Municipal People's Congress (珠海市人民代表大會代表). Prior to joining the Group, Ms. Peng had worked in other pharmaceutical manufacturing enterprises in the PRC. She joined the Group in 1995. Ms. Peng has over 20 years' experience in corporate and financial management for pharmaceutical enterprises in the PRC. Ms.

Peng received the "Guangdong Province Labour Model" (廣東省勞動模範稱號) award in 2000 and the "Distinguished Individual in Advanced Quality Food and Medical Industry Technology in Guangdong" (廣東省食品醫藥行業科技質量工作先進個人) award in 2005. Ms. Peng is responsible for the overall management as well as overseeing the research and development functions of the Group.

Mr. Leung Wing Hon (梁永康), aged 46, is an executive director, the Chief Financial Officer and Company Secretary of the Company. Mr. Leung is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Association of International Accountants and an associate of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom respectively. Mr. Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung has over 15 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Mr. Tsoi Hoi Shan (蔡海山), aged 31, is an executive director and is responsible for planning and managing the overall production at the Hong Kong Yuen Long Plant. Mr. Tsoi is the son of Mr. Choy Kam Lok, who is an executive director and the Chairman of the Company, and the brother of Ms. Choy Siu Chit, who is a non-executive director of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible to supervise the production process at the Plant and ensure that it is in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is one of the discretionary objects of a discretionary trust established by the settlement deed dated 7 February 2007 made between Mr. Choy Kam Lok (as settler) and DBS Trustee H.K. (Jersey) Limited (as trustee).

Non-executive director

Ms. Choy Siu Chit (蔡紹哲), aged 35, is a non-executive director. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She is the daughter of Mr. Choy Kam Lok, an executive director and the Chairman of the Company, and the sister of Mr. Tsoi Hoi Shan, an executive director of the Company.

Independent non-executive directors

Mr. Chong Peng Oon (張品文), aged 60, was appointed as an independent non-executive director on 31 March 2009. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over thirty years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He has been a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants since 1998 and a Registered Accountant of the Malaysian Institute of Accountants since 1981. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Huang Bao Guang (黃寶光), aged 60, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College (中央廣東省委黨校) in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation (珠海市醫藥總公司) since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation (珠海市醫藥總公司) from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province (珠海市醫藥管理局) from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai SFDA (珠海市藥品監管局).

Mr. Song Ming (宋敏), aged 46, was appointed as an independent non-executive Director on 25 May 2007, and is a member of the audit committee of the Company. Mr. Song completed his four-year study in applied mathematics from Zhejiang University, PRC (中國浙江大學) in 1982; his master of applied mathematics degree from Huazhong Technical College, PRC (中國華中工學院) in 1985; and his PhD from Ohio State University, United States in 1991. Mr. Song taught in the Department of Economics at Cleveland State University, United States from 1991 to 1997 and during that period, he was promoted to the position of associate professor. Since then, he has served as an Associate Professor of the School of Economics and Finance of the University of Hong Kong. He is a Director of the Centre for China Financial Research at the University of Hong Kong which was founded in 2001.

SENIOR MANAGEMENT

Mr. Yu Qing Ming (于清明), aged 43, is the Group's executive president. Mr. Yu graduated from the Postgraduate School of the PRC Central Party College (中共中央黨校研究生院) with a master's degree in economic management in July 2001. Mr. Yu worked in SDA as the secretary of the department head at the bureau level from 1989 to 1997. He joined the Group in 1997 and had been appointed as the deputy general manager of the sales department and manager of corporate management, and assistant to the chairman. Mr. Yu is currently the vice president of the Pharmaceutical Enterprise Management Association (中國醫藥企業管理協會) of the PRC and the vice president of the Chamber of Pharmaceutical Industry of the National Federation of Industry and Commerce of the PRC. Mr. Yu is principally responsible for relevant administrative and management tasks and the Group's sales planning and marketing in the PRC.

Ms. Zou Xian Hong (鄒鮮紅), aged 43, is the general manager of the Group's sales team. Ms. Zou graduated from the department of medicine of Nanjing Medical College (南京藥學院) in 1984 and obtained her Executive Master of Business Administration from Hunan University (湖南大學) in 2005. She has, since 2005, been a doctorate student majoring in management science and engineering at the Business School of Central Southern University (中南大學商學院). Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School (湖南省醫藥中等專業學校) from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was responsible for the preparation for the establishment of United Laboratories Chengdu.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Zhu Su Yan (朱蘇燕), aged 43, is the vice president of the Group and the deputy general manager of the Group's sales team in the PRC. Ms. Zhu graduated from Medical School of Southeast University in the PRC (中國東南大學醫學院) (formerly known as Nanjing Railway Medical School (南京鐵道醫學院)), PRC with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University (南京大學) in 2005. Ms. Zhu worked in Nanjing Gulou Hospital (南京鼓樓醫院) as a neurosurgeon from 1988 to 1993, and served as an academic marketing representative with Pfizer in the Jiangsu region for one year in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu, manager of national hospital development department and the deputy general manger of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Mr. Tang Bin Xi (唐彬喜), aged 41, is the factory manager of the Group's production plant in Zhuhai. Mr. Tang graduated from the chemical engineering department of Tianjin University (天津大學) in 1990. He was employed by Shenzhen Haibin Pharmaceutical (深圳海濱製藥有限公司) from 1990 to 1995. He joined the Group in 1995. Mr. Tang had worked as technician, workshop supervisor, manager of production department and assistant factory manager before being promoted to head of the Group's production plant in Zhuhai in September 2003. He is primarily responsible for the overall management and operation of the Group's production plant in Zhuhai.

Mr. Wu Shou Ting (吳守廷), aged 41, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine (江西中醫學院) in 1990 and graduated from the Advance Level Research Class, Selected Course of the MBA for Managers in Office (在職經理工商管理碩士精選課程高級研修班) of Zhongshan University (中山大學) in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province (裕豐製藥廠) for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in Note 36 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2008 is set out in Note 8 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2008 are set out in the Consolidated Income Statement on page 29 of this annual report.

The Board proposed a final dividend of HK15 cents per share for the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 91 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year and as at the date of this report are set out in Note 28 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

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

As at the balance sheet date, the Directors were of the opinion that the distributable share premium and reserves of the Company was approximately HK$1,343 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on page 32 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarized in Note 29 to the consolidated financial statements.

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

PRE-EMPTIVE RIGHTS

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

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 Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In 2008, the aggregate purchases and sales attributable to the Group's five largest suppliers and five largest customers accounted for less than 30% of the Group's total purchases and sales respectively for the year.

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

USE OF PROCEEDS FROM THE INTERNATIONAL PLACING

On 4 June 2007, the Company issued 300,000,000 ordinary shares at an offer price of HK$2.75 through international placing and public offer, the net proceeds after deducting professional fees and all related expenses were approximately HK$780,500,000. Up to 31 December 2008, the Company had applied part of the net proceeds as follow:

- approximately HK$289,000,000 for expanding and upgrading the Group's production facilities;
- approximately HK$110,800,000 for market development and expanding the Group's sales and marketing network;
- approximately HK$22,500,000 for strengthening the Group's research and development capabilities by setting up additional research and development facilities;
- approximately HK$209,200,000 for partially re-paying two of the Group's outstanding loan facilities, one of which was due in September 2007 and bearing an interest rate of 5.76% per annum and the other was due in December 2007 and bearing an interest rate of 6.12% per annum; and
- approximately HK$21,000,000 for the general working capital of the Group.

As at 31 December 2008, approximately HK$128,000,000 of the net proceeds has been deposited into banks and qualified financial institutions, and will be applied in accordance with the plans disclosed in the Company's Prospectus.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2008 and up to the date of this report were as follows:

Executive Directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan (appointed on 3 April 2009)

Non-Executive Directors

Ms. Choy Siu Chit

Independent Non-Executive Directors

Mr. Chong Peng Oon (appointed on 31 March 2009)
Mr. Huang Bao Guang
Mr. Song Ming
Mr. Heng Kwoo Seng (resigned on 28 February 2009)

In accordance with article 87 of the Company's articles of association, Ms. Peng Wei and Ms. Choy Siu Chit will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Tsoi Hoi Shan and Mr. Chong Peng Oon will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 12 to 14 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Choy Kam Lok, Ms. Peng Wei and Mr. Leung Wing Hon has entered into a service contract dated 25 May 2007 with the Company under which each of them agreed to act as an executive director of the Company for a period of three years unless terminated in accordance with the terms of the service contracts. Under these service contracts, the initial annual salary payable by the Company to Mr. Choy Kam Lok is approximately HK$1,800,000 and to each of Ms. Peng Wei and Mr. Leung Wing Hon is approximately HK$1,200,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. Each of the executive directors will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

Mr. Tsoi Hoi Shan has entered into a service contract dated 1 April 2009 with the Company under which he was appointed from 3 April 2009 for a maximum period of three years. Pursuant to the Company's articles of association, he shall retire and, subject to his consent and on such terms as Mr. Tsoi and the Company may agree, offer himself for re-election at the next annual general meeting of the Company in 2009. Mr. Tsoi's subsequent appointment shall also be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$960,000 per annum.

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

Ms. Choy Siu Chit has entered into a letter of appointment dated 25 May 2007 with the Company under which she has agreed to act as a non-executive director for a period of one year and will continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the letter of appointment. Pursuant to the above letter of appointment, Ms. Choy is entitled to an annual director's fee of HK$960,000.

Each of Mr. Heng Kwoo Seng, Mr. Huang Bao Guang and Mr. Song Ming has signed a letter of appointment dated 25 May 2007 with the Company under which they agreed to act as independent non-executive directors for a period of one year and will continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. Mr. Heng Kwoo Seng resigned as an independent non-executive director of the Company on 28 February 2009. The initial annual director's fee for each of the above three independent non-executive directors is HK$180,000.

Mr. Chong Peng Oon has entered into a letter of appointment dated 23 March 2009 with the Company under which he was appointed from 31 March 2009 for an initial fixed term of one year which thereafter shall continue for further successive periods of one year, subject to a maximum period of three years. Pursuant to the Company's articles of association, he shall retire and, subject to his consent and on such terms as Mr. Chong and the Company may agree, offer himself for re-election at the annual general meeting of the Company in 2009. Mr. Chong's subsequent appointment shall also be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Chong's basic emolument as an independent non-executive director is HK$180,000 per annum.

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

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

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

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

As at 31 December 2008, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long positions in the ordinary shares of the Company:

Name of director	Company/Name of associated corporation	Number of shares	*Notes*	Capacity	Percentage of interest
Mr. Choy Kam Lok	Company	865,000,000	(1)	Founder of a trust	72.08%
Mr. Choy Kam Lok	Gesell Holdings Limited	855,000,000	(2)	Founder of a trust	71.25%
Mr. Choy Kam Lok	Heren Far East Limited	855,000,000	(3)	Founder of a trust	71.25%
Ms. Peng Wei	Company	600,000		Personal interest	0.05%
Mr. Leung Wing Hon	Company	10,000		Personal interest	0.01%
Ms. Choy Siu Chit	Company	100,000		Personal interest	0.01%
Mr. Song Ming	Company	100,000		Personal interest	0.01%

Note:

(1) Mr. Choy Kam Lok ("Mr. Choy") is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the non-executive director of the Company, Ms. Choy Siu Chit and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell Holdings Limited ("Gesell") and Heren Far East Limited ("Heren") which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 855,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 10,000,000 shares of the Company.

(2) Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Gesell which forms part of the property of The Choy Family Trust for the purpose of the SFO.

(3) Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Heren which forms part of the property of The Choy Family Trust for the purpose of the SFO.

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

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long position in the ordinary shares of the Company:

Name	*Notes*	**Capacity**	**Number of shares held**	**Percentage of Interest**
Heren		Beneficial owner	855,000,000	71.25%
Gesell	*(1)*	Interest in a controlled corporation	855,000,000	71.25%
DBS Trustee H.K. (Jersey) Limited	*(2)*	Trustee	855,000,000	71.25%
Capital Research and Management Company		Beneficial owner	60,184,000	5.02%

Note:

(1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 855,000,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(2) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 855,000,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2008.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 23 to 26 of this annual report.

PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board

Peng Wei
Executive Director and General Manager

Hong Kong, 7 April 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2008, the Company has adopted the principles prescribed in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with all applicable code provisions.

THE BOARD

The Board comprises three executive directors, one non-executive director and three independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 12 to 15. The Board has established two Board committees namely Audit Committee and Remuneration Committee. The attendance rates of individual directors at board meetings and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Choy Kam Lok	4/4	N/A	N/A
Ms. Peng Wei	4/4	N/A	N/A
Mr. Leung Wing Hon	4/4	N/A	N/A
Non-executive Director			
Ms. Choy Siu Chit	4/4	N/A	N/A
Independent Non-executive Directors			
Mr. Heng Kwoo Seng (resigned on 28 February 2009)	4/4	2/2	1/1
Mr. Huang Bao Guang	4/4	2/2	1/1
Mr. Song Ming	4/4	2/2	1/1

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

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

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

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

CHAIRMAN AND GENERAL MANAGER

The information of Mr. Choy Kam Lok, the Chairman, and Ms. Peng Wei, the General Manager, are set out in the Biographical Details of Directors and Senior Management. During this financial year, the roles of the Chairman and the General Manager were separated to enhance the accountability of each individual.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON -EXECUTIVE DIRECTORS

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

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

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a Director, and approving and terminating the appointment of a Director. The Company has not established a nomination committee. The Company currently does not have any plans to set up a nomination committee in view of the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background.

REMUNERATION COMMITTEE

The Company has established a remuneration committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of directors and senior management. The members of remuneration committee comprises of three independent non-executive directors, namely Mr. Heng Kwoo Seng, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Heng Kwoo Seng is the chairman of the remuneration committee.

The remuneration committee held 1 meeting during the year. It made recommendations with regard to the Group's overall remuneration policies as well as undertook a review of the remuneration and benefits of directors and senior management. The remuneration committee ensures that no director is involved in determining his/her own emoluments. The terms of reference of the remuneration committee are consistent with the relevant provisions set out in the Corporate Governance Code. The terms of reference of the remuneration committee are posted on the Company's website.

Mr. Heng Kwoo Seng resigned as a member and the chairman of the remuneration committee on 28 February 2009, and Mr. Chong Peng Oon was appointed as a member and the chairman of the remuneration committee on 31 March 2009.

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors, namely Mr. Heng Kwoo Seng, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Heng Kwoo Seng is the chairman of the audit committee.

The major duties of the audit committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The audit committee held 2 meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the audit committee are consistent with the relevant provisions set out in the Corporate Governance Code. The terms of reference of the audit committee are posted on the Company's website.

Mr. Heng Kwoo Seng resigned as a member and the chairman of the audit committee on 28 February 2009, and Mr. Chong Peng Oon was appointed as a member and the chairman of the audit committee on 31 March 2009.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2008, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2008, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit service in 2008 amounted to HK$2,800,000 and HK$1,186,000 respectively.

On behalf of the Board

Choy Kam Lok
Chairman

Hong Kong, 7 April 2009

Deloitte.
德勤

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

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 90, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the years then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagements, 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 standard 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.

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 7 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	*8*	**3,755,856**	2,594,937
Cost of sales		**(2,326,256)**	(1,389,152)
Gross profit		**1,429,600**	1,205,785
Other income	*9*	**63,038**	25,753
Selling and distribution expenses		**(554,479)**	(381,535)
Administrative expenses		**(247,561)**	(173,267)
Other expenses		**(40,887)**	(38,434)
Finance costs	*10*	**(117,181)**	(79,961)
Profit before taxation		**532,530**	558,341
Taxation	*12*	**(102,361)**	(47,878)
Profit for the year attributable to equity holders of the Company	*13*	**430,169**	510,463
Dividend/distributions	*14*	**204,000**	277,083
Earnings per share – basic (HK cents)	*15*	**35.8**	48.0

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,466,393**	2,349,792
Prepaid lease payments	17	**131,921**	99,495
Goodwill	18	**3,428**	3,226
Intangible assets	19	**3,935**	5,343
Deposits for acquisition of property, plant and machinery		**128,319**	69,145
Available-for-sale investment	20	**–**	–
Deferred tax assets	27	**6,249**	9,649
		3,740,245	2,536,650
Current assets			
Inventories	21	**773,991**	550,165
Trade and bills receivables, deposits and prepayments	22	**1,198,190**	905,461
Derivative financial instrument	23	**3,240**	–
Prepaid lease payments	17	**3,073**	2,339
Pledged bank deposits	24	**286,045**	354,211
Bank balances and cash	24	**165,474**	401,262
		2,430,013	2,213,438
Current liabilities			
Trade and bills payables and accrued charges	25	**1,509,928**	890,912
Tax payables		**32,836**	12,564
Borrowings	26	**1,350,850**	836,735
		2,893,614	1,740,211
Net current (liabilities) assets		**(463,601)**	473,227
Total assets less current liabilities		**3,276,644**	3,009,877
Non-current liabilities			
Borrowings	26	**424,692**	543,110
Deferred tax liabilities	27	**35,457**	14,235
		460,149	557,345
		2,816,495	2,452,532

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	*28*	**12,000**	12,000
Reserves		**2,804,495**	2,440,532
Equity attributable to equity holders		**2,816,495**	2,452,532

The consolidated financial statements on pages 29 to 90 were approved and authorised for issue by the Board of Directors on 7 April 2009 and are signed on its behalf by:

Choy Kam Lok
DIRECTOR

Leung Wing Hon
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Special reserve** HK$'000	**Capital reserve** HK$'000	**Foreign exchange reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2007	390	–	286,032	192,380	64,100	768,693	1,311,595
Exchange differences arising on translation to presentation currency and total income recognised directly in equity	–	–	–	–	127,046	–	127,046
Profit for the year	–	–	–	–	–	510,463	510,463
Total recognised income for the year	–	–	–	–	127,046	510,463	637,509
Exchange of shares upon group reorganisation	(390)	390	–	–	–	–	–
Capitalisation issue	9,000	(9,000)	–	–	–	–	–
Issue of new shares	3,000	822,000	–	–	–	–	825,000
Expenses relating to issue of new shares	–	(44,489)	–	–	–	–	(44,489)
Transferred to capital reserve	–	–	–	53,587	–	(53,587)	–
Distributions	–	–	–	–	–	(277,083)	(277,083)
At 31 December 2007	12,000	768,901	286,032	245,967	191,146	948,486	2,452,532
Exchange differences arising on translation to presentation currency and total income recognised directly in equity	–	–	–	–	137,794	–	137,794
Profit for the year	–	–	–	–	–	430,169	430,169
Total recognised income for the year	–	–	–	–	137,794	430,169	567,963
Transferred to capital reserve	–	–	–	21,125	–	(21,125)	–
Dividend	–	–	–	–	–	(204,000)	(204,000)
At 31 December 2008	**12,000**	**768,901**	**286,032**	**267,092**	**328,940**	**1,153,530**	**2,816,495**

Capital reserve represents the People's Republic of China ("PRC") statutory reserves provided before declaring dividends to their shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries.

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Profit before taxation	**532,530**	558,341
Adjustments for:		
(Reversals of) allowance for inventories	**(6,895)**	20,301
(Reversals of) allowance for doubtful debts	**(12,650)**	333
Amortisation of intangible assets	**1,843**	2,749
Amortisation of prepaid lease payments	**3,073**	2,088
Depreciation of property, plant and equipment	**248,249**	181,779
Finance costs	**117,181**	79,961
Bank interest income	**(9,594)**	(15,317)
Net loss on disposal of property, plant and equipment	**3,906**	272
Fair value change on derivative financial instrument	**(3,240)**	–
Operating cash flows before movements in working capital	**874,403**	830,507
Increase in inventories	**(177,076)**	(200,493)
Increase in trade and bills receivables, deposits and prepayments	**(219,921)**	(47,412)
Increase (decrease) in trade and bills payables and accrued charges	**391,309**	(75,077)
Cash generated from operations	**868,715**	507,525
Tax paid	**(58,168)**	(72,025)
Interest paid	**(117,181)**	(75,152)
Net cash from operating activities	**693,366**	360,348
Investing activities		
Payments for purchase of property, plant and equipment	**(1,125,523)**	(819,922)
Proceeds on disposal of property, plant and equipment	**3,238**	3,979
Government grants received	**18,083**	5,474
Increase in prepaid lease payments	**(30,790)**	(16,651)
Acquisition of intangible assets	**(133)**	(4,100)
Decrease (increase) in pledged bank deposits	**82,446**	(126,024)
Repayment of advance to a director	**–**	187,785
Advance to a director	**–**	(114,104)
Repayment from loan receivable	**–**	782
Interest received	**9,594**	15,317
Net cash used in investing activities	**(1,043,085)**	(867,464)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Financing activities		
Dividend paid	**(204,000)**	–
New borrowings other than trust receipt loans raised	**1,531,189**	1,497,270
Repayment of borrowings other than trust receipt loans	**(1,215,384)**	(1,494,864)
(Decrease) increase in trust receipt loans, net	**(1,873)**	2,649
Proceeds from issue of new shares	**–**	825,000
Expenses relating to issue of new shares	**–**	(44,489)
Net cash from financing activities	**109,932**	785,566
Net (decrease) increase in cash and cash equivalents	**(239,787)**	278,450
Effect of foreign exchange rate changes	**1,088**	29,491
Cash and cash equivalents at beginning of the year	**401,211**	93,270
Cash and cash equivalents at end of the year	**162,512**	401,211
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**165,474**	401,262
Bank overdraft, secured	**(2,962)**	(51)
	162,512	401,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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.

The Company acts as an investment holdings company. The principal activities of its subsidiaries are set out in note 36.

The functional currency of the Company and its subsidiaries in 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 dollar is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2008, the Group has net current liabilities of HK$463,601,000 and which included borrowings of HK$1,350,850,000. Subsequent to the balance sheet date, the Group has obtained new bank loans amounting to HK$57,000,000 and HK$55,000,000 which will mature in 2010 and 2011, respectively. In February 2009, the Group has also obtained a bank loan of HK$271,440,000 with the maturity date of August 2011 and used it to repay a bank loan which will mature in December 2009. In addition, the directors of the Company believe those revolving bank borrowings included in current liabilities at balance sheet date could be successfully renewed on renewal date.

Taking into account of the financial resources available to the Group, including internally generated funds, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the balance sheet date and accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of The new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]

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

HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) - Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

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

Basis of consolidation

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

All intra-group transactions, balances, income and expenses between group enterprises are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the establishment of the subsidiaries and the minority's share of changes in equity since the date of the establishment. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is initially recognised and presented separately in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the consolidation. Cash-generating units to which goodwill has been allocated are tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Revenue recognition

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purpose other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of which are set out below.

Effective interests method

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated its unlisted equity security as available-for-sale financial assets. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value, except for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

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

Impairment losses on available-for-sale equity investments are measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset and will not be reversed in profit or loss in subsequent period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities (including trade and other payables, and borrowings) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds receivable net of direct issued costs.

Derivative financial instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

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

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

Retirement benefit costs

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. As at 31 December 2008, the carrying amount of property, plant and equipment is HK$3,466,393,000 (2007: HK$2,349,792,000).

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the use of estimation of future cash flows. Where the expectation on the recoverability of trade and bills receivables is different from the original estimate, such difference will impact carrying value of trade and bills receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2008, the carrying amount of trade and bills receivables are HK$1,091,192,000 (2007: HK$813,662,000), net of allowance for doubtful debts of HK$20,851,000 (2007: HK$33,446,000).

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

The Group makes allowance for write-down of inventories based on assessment of the net realisable value of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of estimation of the net realisable value and estimates on the conditions and usefulness of the inventories. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. As at 31 December 2008, the carrying amount of inventories is HK$773,991,000 (2007: HK$550,165,000).

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 26, net of bank balances and equity attributable to equity shareholders of the Company, comprising issued share capital, retained profits and other reserves.

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

The management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and as at the balance sheet date.

7. FINANCIAL INSTRUMENTS

Financial risk management objectives and polices

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

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

Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including trade and bills receivables, pledged bank deposits and bank balances and cash)	**1,542,711**	1,569,135
Available-for-sale investment	**–**	–
Derivative financial instrument	**3,240**	–
Financial liabilities		
Amortised cost	**3,246,395**	2,174,594

7. FINANCIAL INSTRUMENTS *(Continued)*

Foreign currency risk

The Group has certain trade receivables, pledged bank deposits and bank balances denominated in United States dollars and bill payable denominated in Euro, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amounts of the Group's monetary assets (liabilities) denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at balance sheet date are as follow:

	2008	2007
	HK$'000	HK$'000
United States dollars	**149,086**	80,735
Euro	**(45,456)**	–

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in Renminbi, the functional currency of the respective group entities operating in the PRC, against United States dollars and Euro. 5% is the sensitivity rate used which represents management's assessment of the possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rates. A (negative) positive number below indicates a (decrease) increase in profit for the year where Renminbi strengthens 5% against United States dollars and Euro. For a 5% weakening of Renminbi against United States dollars and Euro, there would be an equal but opposite impact on the profit for the year.

	2008	2007
	HK$'000	HK$'000
United States dollars		
Profit for the year	**(6,331)**	(3,631)
Euro		
Profit for the year	**1,932**	–

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value and cash flow interest rate risk

The Group has significant borrowings, pledged bank deposits and bank balances which bear interest-rate risk. Floating rate borrowings, pledged bank deposits and bank balances expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the borrowings, pledged bank deposits and bank balances at the balance sheet date. The analysis is prepared assuming the amount of "net borrowings" represent borrowings less pledged bank deposits and bank balances at the balance sheet date was outstanding for the whole year. A 200 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the balance sheet date, if interest rates had been increased by 200 (2007: 200) basis points and all other variables were held constant, the Group's profit for the year would have decreased by HK$16,903,000 for the year ended 31 December 2008 (2007: HK$7,241,000). If interest rates had been decreased by 200 basis points, there would have been equal but opposite impact on the profit for the year.

Other price risk

During the year, the Group has entered into a foreign currency forward contract with a bank to reduce its exposure to currency fluctuation risk of payments for purchase of property, plant and equipment which is denominated in Euro. The derivative is not accounted for under hedge accounting. The Group is required to estimate the fair value of the foreign currency forward contract at balance sheet date, which therefore exposes the Group to other price risk.

Forward exchange rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Group's forward buying rate risk at the balance sheet date only. If the forward exchange rate of Hong Kong dollars against Euro had been 5% higher while all other input variables of the valuation models were held constant, the Group's profit for the year would increase by HK$1,521,000 (2007: nil). If the forward exchange rate had been lowered by 5%, the Group's profit for the year would have decreased by HK$2,068,000 (2007: nil).

7. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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

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

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

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

Other than concentration of credit risk on bank deposits in which the counterparties are financially sound, the Group has no significant concentration of credit risk on trade and bills receivables, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables as at 31 December 2008.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the management has evaluated all the relevant facts available to them and is of the opinion that there are good track records and relationship with banks which would enhance the Group's ability on renewing the bank loans upon expiry during 2009 and securing adequate banking facilities within the limit approved by banks. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As at 31 December 2008, the Group has net current liabilities of approximately HK$463,601,000 and the Group has managed those liquidity risk as disclosed in note 2.

7. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-2 years HK$'000	2-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2008									
Non-interest bearing									
Trade and bills payables	**724,960**	**484,019**	**261,874**	**–**	**–**	**–**	**–**	**1,470,853**	**1,470,853**
Interest bearing instruments									
Borrowings, trust receipt loans and bank overdraft									
– fixed rate	**90,238**	**983**	**31,290**	**135,186**	**–**	**–**	**–**	**257,697**	**245,427**
– variable rate	**203,588**	**250,769**	**253,837**	**228,087**	**181,985**	**438,910**	**133,694**	**1,690,870**	**1,530,115**
	1,018,786	**735,771**	**547,001**	**363,273**	**181,985**	**438,910**	**133,694**	**3,419,420**	**3,246,395**
As at 31 December 2007									
Non-interest bearing									
Trade and bills payables	386,439	238,909	169,401	–	–	–	–	794,749	794,749
Interest bearing instruments									
Borrowings, trust receipt loans and bank overdraft									
– fixed rate	40,548	317	27,586	25,447	–	–	–	93,898	90,483
– variable rate	456,550	110,909	91,275	140,122	406,664	84,143	106,944	1,396,607	1,289,362
	883,537	350,135	288,262	165,569	406,664	84,143	106,944	2,285,254	2,174,594

7. FINANCIAL INSTRUMENTS *(Continued)*

Fair value

The fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments.

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

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

8. TURNOVER AND SEGMENT INFORMATION

Turnover

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

	2008 **HK$'000**	2007 HK$'000
Sales of goods	**3,755,856**	2,594,937

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments

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 revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2008

Income Statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	742,386	1,712,200	1,301,270	–	3,755,856
Inter-segment sales	680,319	175,757	–	(856,076)	–
	1,422,705	1,887,957	1,301,270	(856,076)	3,755,856

Inter-segment sales are charged at prevailing market rates.

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Elimination HK$'000	Consolidated HK$'000
RESULT					
Segment result	107,220	231,148	348,851		687,219
Unallocated other income					21,568
Unallocated corporate expenses					(59,076)
Finance costs					(117,181)
Profit before taxation					532,530
Taxation					(102,361)
Profit for the year attributable to equity holders of the Company					430,169

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2008

Balance sheet

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	3,320,394	1,583,824	805,032	5,709,250
Unallocated corporate assets				461,008
Consolidated total assets				6,170,258
LIABILITIES				
Segment liabilities	785,826	522,336	201,766	1,509,928
Unallocated corporate liabilities				1,843,835
Consolidated total liabilities				3,353,763

Other information

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
Capital expenditure	944,956	240,225	62,619	1,247,800
Depreciation and amortisation	185,426	31,641	36,098	253,165
(Reversals of) allowances for inventories	(6,978)	–	83	(6,895)
Loss on disposal of property, plant and equipment	–	2,769	1,137	3,906

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2007

Income Statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	265,677	1,362,262	966,998	–	2,594,937
Inter-segment sales	885,377	147,570	–	(1,032,947)	–
	1,151,054	1,509,832	966,998	(1,032,947)	2,594,937

Inter-segment sales are charged at prevailing market rates.

RESULT					
Segment result	253,053	171,645	235,018		659,716
Unallocated other income					16,133
Unallocated corporate expenses					(37,547)
Finance costs					(79,961)
Profit before taxation					558,341
Taxation					(47,878)
Profit for the year attributable to equity holders of the Company					510,463

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2007

Balance sheet

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	2,221,424	1,141,354	622,188	3,984,966
Unallocated corporate assets				765,122
Consolidated total assets				4,750,088
LIABILITIES				
Segment liabilities	403,803	374,174	112,935	890,912
Unallocated corporate liabilities				1,406,644
Consolidated total liabilities				2,297,556

Other information

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
Capital expenditure	735,396	28,470	18,083	781,949
Depreciation and amortisation	116,032	27,832	42,752	186,616
Allowances for inventories	13,110	7,054	137	20,301
Loss on disposal of property, plant and equipment	–	228	44	272

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Geographical segments

Segment information regarding the Group's sales by geographical market, irrespective of the origin of the goods is presented below:

	2008	2007
	HK$'000	HK$'000
PRC	**2,919,420**	1,988,218
Europe	**166,184**	204,789
India	**301,137**	90,979
Hong Kong	**9,729**	4,928
Other Asian regions	**301,745**	230,798
Other regions	**57,641**	75,225
	3,755,856	2,594,937

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Capital expenditure**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**5,451,323**	3,801,418	**1,244,591**	781,594
Hong Kong	**257,927**	183,548	**3,209**	355
	5,709,250	3,984,966	**1,247,800**	781,949

9. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Bank interest income	**9,594**	15,317
Sales of raw materials	**13,107**	3,116
Subsidy income (note 35)	**15,685**	4,816
Sundry income	**2,160**	2,504
Tax incentive for re-investing the profit distribution in a subsidiary in accordance with relevant jurisdiction in the PRC	**8,734**	–
Fair value change on foreign currency forward contract	**3,240**	–
Insurance compensation	**10,518**	–
	63,038	25,753

Insurance compensation represents the insurance claimed for the compensation of the property and inventory lost during Wenchuan earthquake in PRC.

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on borrowings wholly repayable within five years	**117,181**	75,152
Interest on loan from a director	**–**	4,809
	117,181	79,961

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

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

Year ended 31 December 2008

	Choy Kam Lok HK$'000	Pang Wei HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Heng Kwoo Seng HK$'000	Hueng Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	960	180	180	180	1,500
Other emoluments:								
Salaries and other benefits	1,800	1,200	1,200	–	–	–	–	4,200
Retirement benefit scheme contributions	–	33	12	12	–	–	–	57
	1,800	1,233	1,212	12	–	–	–	4,257
Total emoluments	1,800	1,233	1,212	972	180	180	180	5,757

Year ended 31 December 2007

	Choy Kam Lok HK$'000	Pang Wei HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Heng Kwoo Seng HK$'000	Hueng Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	920	98	98	98	1,214
Other emoluments:								
Salaries and other benefits	2,075	768	869	–	–	–	–	3,712
Retirement benefit scheme contributions	–	74	12	12	–	–	–	98
	2,075	842	881	12	–	–	–	3,810
Total emoluments	2,075	842	881	932	98	98	98	5,024

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees

The five highest paid individuals of the Group for the year ended 31 December 2008 included four (2007: four) directors of the Company, details of which are set out above. The emoluments of the remaining one (2007: one) individual are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**1,308**	1,223
Retirement benefits scheme contributions	**12**	12
	1,320	1,235

Their emoluments were within the following bands:

	2008 No. of employees	2007 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	1

No emolument was paid by the Group to any of the directors or the five highest paid individuals as inducement to join upon joining the Group as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2008 and 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

12. TAXATION

	2008 **HK$'000**	2007 HK$'000
The charge comprises:		
Current tax		
Hong Kong	**10,633**	10,519
PRC	**71,161**	44,518
(Over)underprovision in prior years		
Hong Kong	**1,050**	4,125
PRC	**(5,105)**	–
	77,739	59,162
Deferred tax (note 27)		
Current year	**25,016**	(11,284)
Attributable to a change in tax rate	**(394)**	–
	102,361	47,878

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投資企業和外國企業所得稅法》) and Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《外商投資企業和外國企業所得稅法實施細則》), both of which came into force on 1 July 1999, certain subsidiaries in the PRC are entitled to exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter will be entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Such tax benefit for respective subsidiaries will expire from 1 January 2010 to 1 January 2013. In addition, certain subsidiaries are entitled to a preferential tax rate as these subsidiaries are regarded as high-technology companies.

12. TAXATION *(Continued)*

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, for those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate is increased from 18% over 5 years to 25% 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%. Deferred tax is recognised based on the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

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 held by the PRC entity 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 of HK$22,432,000 on the undistributed earnings has been charged to the consolidated income statement for the year ended 31 December 2008.

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

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**532,530**	558,341
Tax at PRC Enterprise Income Tax rate of 25% (2007: 33%)	**133,133**	184,253
Tax effect of expenses not deductible for tax purpose	**4,370**	19,698
Tax effect of income not taxable for tax purpose	**(3,366)**	(1,820)
(Over)underprovision in prior years	**(4,055)**	4,125
Utilisation of tax losses previously not recognised	**(2,303)**	(38,473)
Utilisation of deductible temporary difference previously not recognised	**(711)**	–
Tax effect of tax losses not recognised	**2,047**	2,863
Withholding tax on undistributed profits of subsidiaries	**22,432**	–
Tax effect of deferred tax assets not recognised	**–**	13,255
Effect of tax concessionary rates granted to the PRC subsidiaries	**(32,619)**	(89,904)
Effect of tax exemptions granted to the PRC subsidiaries	**(11,083)**	(39,108)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(5,279)**	(7,868)
Effect of change in tax rate	**(394)**	–
Others	**189**	857
Tax charge for the year	**102,361**	47,878

13. PROFIT FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Profit for the year has been arrived at after charging (crediting):		
(Reversals of) allowances for inventories	**(6,895)**	20,301
(Reversals of) allowance for doubtful debts	**(12,650)**	333
Auditor's remuneration	**2,800**	2,755
Listing expenses (included in other expenses)	**–**	26,683
Depreciation and amortisation		
Depreciation of property, plant and equipment	**248,249**	181,779
Amortisation		
– intangible assets (included in administrative expenses)	**1,843**	2,749
– prepaid lease payments	**3,073**	2,088
	253,165	186,616
Less: amount included in research and development expenditures	**(1,094)**	(1,059)
	252,071	185,557
Exchange loss, net	**2,875**	6,154
Net loss on disposal of property, plant and equipment	**3,906**	272
Operating lease payments in respect of rented premises	**2,700**	1,116
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**267,546**	165,171
Retirement benefit costs	**17,966**	9,669
	285,512	174,840
Less: amount included in research and development expenditures	**(2,626)**	(2,045)
	282,886	172,795
Loss on production suspension in Wenchuan earthquake (included in other expenses)	**25,028**	–
Research and development expenditures (included in other expenses)	**15,436**	11,494

14. DIVIDEND/DISTRIBUTIONS

In June 2008, the final dividend in respect of the financial year ended 31 December 2007 of HK17 cents (year ended 31 December 2006: nil) per share totalling HK$204,000,000 (year ended 31 December 2006: nil) was paid to shareholders during the year.

A final dividend of HK15 cents (2007: HK17 cents) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming general meeting.

On 21 May 2007, The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group declared a special dividend of HK$277,083,000 to its then sole shareholder. Such dividend was settled by way of offsetting the amount due from a director of HK$437,183,000 and loan from a director of HK$160,100,000 during the year ended 31 December 2007.

15. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company and the weighted average number of 1,200,000,000 (2007: 1,064,383,562) shares.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2007	630,938	1,535,089	65,478	29,614	5,406	2,266,525
Exchange adjustments	41,602	118,248	4,697	2,365	14,111	181,023
Additions	14,968	286,399	2,749	9,216	447,866	761,198
Disposals	–	(11,488)	(196)	(2,218)	–	(13,902)
Reclassification	74,287	22,502	–	–	(96,789)	–
At 31 December 2007	761,795	1,950,750	72,728	38,977	370,594	3,194,844
Exchange adjustments	45,375	118,686	4,284	2,374	34,726	205,445
Additions	107,473	162,933	4,707	7,465	934,299	1,216,877
Disposals	(503)	(20,763)	(5,302)	(4,642)	–	(31,210)
Reclassification	187,221	70,900	1,298	156	(259,575)	–
At 31 December 2008	1,101,361	2,282,506	77,715	44,330	1,080,044	4,585,956
DEPRECIATION						
At 1 January 2007	87,416	474,724	39,191	25,117	–	626,448
Exchange adjustments	6,116	35,753	2,846	1,761	–	46,476
Charge for the year	23,146	150,981	5,845	1,807	–	181,779
Eliminated on disposals	–	(7,698)	(173)	(1,780)	–	(9,651)
At 31 December 2007	116,678	653,760	47,709	26,905	–	845,052
Exchange adjustments	6,683	39,272	2,802	1,571	–	50,328
Charge for the year	34,560	200,650	9,272	3,767	–	248,249
Eliminated on disposals	(56)	(15,454)	(4,511)	(4,045)	–	(24,066)
At 31 December 2008	157,865	878,228	55,272	28,198	–	1,119,563
CARRYING AMOUNTS						
At 31 December 2008	**943,496**	**1,404,278**	**22,443**	**16,132**	**1,080,044**	**3,466,393**
At 31 December 2007	645,117	1,296,990	25,019	12,072	370,594	2,349,792

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

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

	2008 **HK$'000**	2007 HK$'000
Leasehold land in Hong Kong:		
Medium-term lease	**101,855**	104,404
Leasehold land in the PRC:		
Medium-term lease	**841,641**	540,713
	943,496	645,117

At 31 December 2008, the Group is in the process of obtaining the real estate ownership certificate for building with an aggregate carrying amount of HK$47,760,000 (2007: HK$35,724,000).

17. PREPAID LEASE PAYMENTS

	2008 **HK$'000**	2007 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**22,588**	23,169
Land use rights in the PRC:		
Medium-term lease	**112,406**	78,665
	134,994	101,834
Analysed for reporting purposes as:		
Non-current asset	**131,921**	99,495
Current asset	**3,073**	2,339
	134,994	101,834

At 31 December 2008, the Group is in the process of obtaining the land use right certificate for prepaid lease payments with an aggregate amount of HK$19,348,000 (2007: HK$14,302,000).

18. GOODWILL

	HK$'000
COST	
At 1 January 2007	3,001
Exchange adjustments	225
At 31 December 2007	3,226
Exchange adjustments	202
At 31 December 2008	**3,428**

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash generating units (CGUs), including one subsidiary which operates in bulk medicine segment and one subsidiary which operates in finished products segment. The carrying amounts of goodwill as at balance sheet dates allocated to these units are as follows:

	2008	2007
	HK$'000	HK$'000
Bulk medicine	**875**	823
Finished products	**2,553**	2,403
	3,428	3,226

Based on the impairment testing of goodwill at balance sheet date, the management of the Group considered that there are no impairments of any of its CGUs containing goodwill with infinite useful lives.

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5-year period and discount rate of 13.99% (2007: 9.83%). Cash flows beyond the 5-year period have been extrapolated using growth rate of 0% (2007: 0%). The key assumptions is budgeted gross margin based on the past performance and the Group's expectation for the market development.

19. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2007	13,030
Exchange realignment	1,139
Addition	4,100
At 31 December 2007	18,269
Exchange realignment	1,144
Addition	133
At 31 December 2008	19,546
AMORTISATION	
At 1 January 2007	9,367
Exchange realignment	810
Charge for the year	2,749
At 31 December 2007	12,926
Exchange realignment	842
Charge for the year	1,843
At 31 December 2008	15,611
CARRYING AMOUNTS	
At 31 December 2008	**3,935**
At 31 December 2007	5,343

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

20. AVAILABLE-FOR-SALE INVESTMENT

	2008 HK$'000	2007 HK$'000
Unlisted investment at cost	**23,417**	23,417
Less: Impairment loss recognised	**(23,417)**	(23,417)
	–	–

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

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

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**162,588**	108,161
Work in progress	**216,517**	131,803
Finished goods	**394,886**	310,201
	773,991	550,165

During the year, there was a significant increase in the net realisable value of raw material due to market shortage in raw materials. As a result, a reversal of write-down of raw materials of HK$6,895,000 (2007: nil) has been recognised and included in costs of sales in the current year.

22. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008 HK$'000	2007 HK$'000
Trade and bills receivables	**1,112,043**	847,108
Less: allowance for doubtful receivables	**(20,851)**	(33,446)
	1,091,192	813,662
Deposits and prepayments	**106,998**	91,799
	1,198,190	905,461

The Group normally allows an average credit period of 30 days to 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 average maturity period of 90 days to 180 days.

The following is an aged analysis of trade and bills receivables at the respective balance sheet dates:

	2008 HK$'000	2007 HK$'000
Trade receivables		
0 to 30 days	**217,571**	257,875
31 to 60 days	**162,033**	109,685
61 to 90 days	**59,459**	40,532
91 to 120 days	**3,440**	17,234
121 to 180 days	**3,246**	7,890
Over 180 days	**1,288**	3,598
	447,037	436,814
Bills receivables		
0 to 30 days	**93,362**	59,770
31 to 60 days	**75,233**	64,210
61 to 90 days	**125,347**	47,362
91 to 120 days	**122,536**	67,208
121 to 180 days	**225,019**	135,026
Over 180 days	**2,658**	3,272
	644,155	376,848

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

95% (2007: 92%) of the trade and bills receivables that are neither past due nor impaired and have either been subsequently settled or maintained active trade business relationship with the Group.

Included in the Group's trade and bills receivables are debtors with a carrying amount of HK$38,361,000 (2007: HK$66,655,000) which are past due over at the reporting date for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2008 **HK$'000**	2007 HK$'000
61 – 90 days	**27,729**	34,661
91 – 120 days	**3,440**	17,234
121 – 180 days	**3,246**	7,890
Over 180 days	**3,946**	6,870
	38,361	66,655

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

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

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**33,446**	30,589
Exchange adjustments	**1,906**	2,673
Amount written off as uncollectible	**(1,851)**	(149)
Impairment losses recognised on receivables	**252**	1,836
Impairment losses reversed	**(12,902)**	(1,503)
Balance at end of the year	**20,851**	33,446

At 31 December 2008, gross trade receivables balance totalling HK$20,851,000 (2007: HK$33,446,000) were individually determined to be impaired, which related to customers that were in financial difficulties. The management assessed that full amount of the trade receivables is expected to be non-recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2008, the Group had HK$428,969,000 (2007: HK$360,829,000) of bills receivables discounted to several financial institutions with recourse by providing a credit guarantee over the expected losses of those receivables. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on such discount as a secured borrowing (see note 26).

Included in the Group's trade and bills receivables are trade and bills receivables with a carrying amount of HK$145,559,000 (2007: HK$77,609,000) which are denominated in United States dollars, being foreign currency of the respective group entities.

23. DERIVATIVE FINANCIAL INSTRUMENT

	2008 HK$'000	2007 HK$'000
Foreign currency forward contract	**3,240**	–

During the year, the Group has entered into a foreign currency forward contract with a bank to reduce its exposure to currency fluctuation risk of payment for purchase of property, plant and equipment that are denominated in Euro. This derivative is not accounted for under hedge accounting.

At 31 December 2008, the Group had outstanding a foreign currency forward contract with notional amount of Euro 4,000,000 (equivalent to HK$39,920,000). The contract is subject to net settlement at maturity date and is measured at fair value at the balance sheet date. The major terms of this foreign currency forward contract are as follows:

Notional amount	Maturity date	Exchange rate
Buy Euro 4,000,000	31 March 2009	HK$9.98/Euro 1

24. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged bank deposits

	2008 HK$'000	2007 HK$'000
Pledged bank deposits denominated in:		
RMB	**237,969**	230,892
Hong Kong dollars	**48,065**	123,306
United States dollars	**11**	13
	286,045	354,211

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

The pledged deposits have been placed in designated banks as part of the securities provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see note 33).

The range of average effective interest rates of the pledged deposits at 31 December 2008 is 0.36% to 2.25% (2007: 0.72% to 4%) per annum.

24. PLEDGED BANK DEPOSITS AND BANK BALANCES *(Continued)*

Bank balances and cash

	2008	2007
	HK$'000	HK$'000
Bank balances and cash denominated in:		
RMB	**153,569**	87,562
Hong Kong dollars	**8,389**	310,587
United States dollars	**3,516**	3,113
	165,474	401,262

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

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

The range of average effective interest rate of the bank balances at 31 December 2008 is 0.36% to 3.6% (2007: 0.72% to 5.22%) per annum.

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of 0 day to 120 days from its suppliers. The following is an aged analysis of the trade and bills payables at the respective balance sheet date:

	2008 HK$'000	2007 HK$'000
Trade payables		
0 to 90 days	**475,476**	293,970
91 to 180 days	**256,842**	54,348
Over 180 days	**17,210**	20,334
	749,528	368,652
Bills payables		
0 to 90 days	**145,466**	116,782
91 to 180 days	**159,551**	123,886
	305,017	240,668
Other payables and accruals	**455,383**	281,592
	1,509,928	890,912

The average credit period on purchases of goods is 60 days. The Group has financial risk management policy in place to ensure that all payables are within the credit timeframe.

Included in the Group's trade and bills payables are bills payables with a carrying amount of HK$45,456,000 (2007: nil) which are denominated in Euro, being foreign currency of the respective group entities.

26. BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans	**1,342,134**	1,015,615
Discounted bills with recourse	**428,969**	360,829
Trust receipt loans	**1,477**	3,350
Bank overdraft, secured	**2,962**	51
	1,775,542	1,379,845
Analysed as:		
Secured	**886,251**	713,313
Unsecured	**889,291**	666,532
	1,775,542	1,379,845

The borrowings are repayable as follows:

	2008 HK$'000	2007 HK$'000
On demand or within one year	**1,350,850**	836,735
More than one year, but not exceeding two years	**136,645**	370,303
More than two years, but not exceeding five years	**288,047**	172,807
	1,775,542	1,379,845
Less: Amount due within one year shown under current liabilities	**(1,350,850)**	(836,735)
Amount due after one year	**424,692**	543,110

26. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings which are denominated in the functional currencies of the respective group entities are analysed as follows:

Denominated in	Interest rate	2008 HK$'000	2007 HK$'000
RMB	People's Bank of China lending rate – floating rate	**1,276,658**	1,094,304
RMB	People's Bank of China lending rate – fixed rate	**245,427**	90,483
Hong Kong dollars	Hong Kong Interbank Offered Rate plus 1% to 2.5%	**251,980**	191,708
Hong Kong dollars	Standard bills rate quoted by banks or at a margin over Hong Kong prime rate	**1,477**	3,350
		1,775,542	1,379,845

Certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group. The trust receipt loans are secured by the Group's leasehold land and buildings and bank deposits.

The range of average effective interest rates of the floating rate borrowings at 31 December 2008 is 4.01% to 8.41% (2007: 5.52% to 7.47%) per annum. The range of average effective interest rates of the fixed rate borrowings at 31 December 2008 is 5.31% to 7.47% (2007: 6.12% to 7.29%) per annum. The range of average effective interest rates of the trust receipt loans at 31 December 2008 is 3.68% to 6.45% (2007: 5.8% to 7.3%) per annum. The range of average effective interest rates of the bank overdraft at 31 December 2008 is 4.76% to 6.94% (2007: 6.75% to 7.75%) per annum.

27. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	**Unrealised profit on inventories** HK$'000	**Undistributed profits of subsidiaries** HK$'000	**Total** HK$'000
At 1 January 2007	(15,870)	–	–	(15,870)
Credit to consolidated income statement for the year	1,635	9,649	–	11,284
At 31 December 2007	(14,235)	9,649	–	(4,586)
Credit (charge) to consolidated income statement for the year	397	(2,981)	(22,432)	(25,016)
Effect of change in tax rate	813	(419)	–	394
At 31 December 2008	(13,025)	6,249	(22,432)	(29,208)

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

	2008 **HK$'000**	2007 HK$'000
Deferred tax assets	**6,249**	9,649
Deferred tax liabilities	**(35,457)**	(14,235)
	(29,208)	(4,586)

27. DEFERRED TAXATION *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Accelerated depreciation charges	**119,610**	102,961
Allowances for doubtful debts	**20,851**	33,446
Allowances for inventories	**21,971**	28,866
	162,432	165,273

The Group has unrecognised tax losses of HK$15,500,000 (2007: HK$16,527,000) at the balance sheet date. No deferred tax asset has been recognised for such tax losses due to unpredictability of future profits streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2008	2007
	HK$'000	HK$'000
Tax losses will expire in:		
2009	**–**	–
2010	**–**	–
2011	**–**	–
2012	**–**	8,676
2013	**8,188**	–
	8,188	8,676
Tax losses without expiry	**7,312**	7,851
	15,500	16,527

28. SHARE CAPITAL

	Notes	**Number of shares**	**Amount** HK$'000
Ordinary shares of HK$0.01 each:			
Authorised:			
At 1 January 2007		38,000,000	380
Increase on 25 May 2007	*(a)*	3,762,000,000	37,620
At 31 December 2007 and 31 December 2008		3,800,000,000	38,000
Issued and fully paid:			
At 1 January 2007		1	–
Issue of shares upon the group reorganisation	*(b)*	999	–
Capitalisation issue	*(c)*	899,999,000	9,000
Issue of new shares	*(d)*	300,000,000	3,000
At 31 December 2007 and 31 December 2008		1,200,000,000	12,000

(a) On 25 May 2007, the authorised share capital of the Company was increased from HK$380,000 to HK$38,000,000 by the creation of an additional 3,762,000,000 new shares of HK$0.01 each. The new shares rank pari passu in all respects with the existing shares.

(b) As consideration for the acquisition of the entire issued share capital of The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group, the Company issued an aggregate of 999 shares of HK$0.01 each, credited as fully paid under the group reorganisation which took place on 25 May 2007. The difference between the nominal value of The United Laboratories (Hong Kong) Holding Limited and the nominal value of the shares issued by the Company has been credited to share premium.

(c) 899,999,000 shares of HK$0.01 each in the Company were allotted and issued, credited as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 1 June 2007 in proportion to their respective shareholdings by the capitalisation of an amount of HK$8,999,990 from the amount standing to the credit of the share premium account of the Company.

(d) On 15 June 2007, 300,000,000 new ordinary shares of the Company of HK$0.01 each were issued at HK$2.75 per share for cash through an initial public offering.

29. SHARE OPTION SCHEME

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

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

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

30. MAJOR NON-CASH TRANSACTIONS

The interest on loan from a director for the year ended 31 December 2007 of HK$4,809,000 was settled by crediting an equivalent sum to loan from a director.

On 21 May 2007, the Group declared a special dividend of HK$277,083,000 to the sole shareholder. Such dividend was settled by way of offsetting the amount due from a director of HK$437,183,000 and loan from a director of HK$160,100,000.

31. OPERATING LEASES

The Group as lessee

	2008 HK$'000	2007 HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**599**	621
In the second to fifth years inclusive	**115**	314
	714	935

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

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

32. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**471,189**	459,970

33. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2008 HK$'000	2007 HK$'000
Property, plant and equipment	**897,499**	557,284
Prepaid lease payments	**120,942**	72,025
Bills receivables	**122,249**	150,754
Pledged bank deposits	**286,045**	354,211
	1,426,735	1,134,274

34. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's basic salary with the maximum contribution of HK$1,000 per month. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of HK$455,000 (2007: HK$178,000) are charged to the consolidated income statement.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$17,511,000 (2007: HK$9,491,000) are charged to the consolidated income statement.

35. GOVERNMENT GRANTS

Incentive subsidies of HK$13,362,000 (2007: nil) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. There were no specific conditions attached to the grants and, therefore, the Group recognised the grants upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

As at 31 December 2008, government grants of HK$6,786,000 (2007: HK$2,393,000) were received by the Group to subsidise the acquisition of property, plant and machinery. The amount has been treated as deferred income. The amount is transferred to income in the form of reduced depreciation or amortisation charges over the useful lives of the relevant assets. This has resulted in a credit to consolidated income statement in the current year of HK$270,000 (2007: HK$270,000).

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$5,033,000 (2007: HK$7,028,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised in the same period as those expense are charged in the consolidated income statement. This has resulted in a credit to the current year's expenses in the consolidated income statement of HK$2,053,000 (2007: HK$4,546,000).

36. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a)		Principal activities and place of operation
			2008	2007	
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	US$1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦制藥（成都）有限公司 (note b)	PRC	RMB250,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC

36. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (note a) 2008	2007	Principal activities and place of operation
珠海康知樂醫藥有限公司 (note c)	PRC	RMB250,000,000	**100%**	100%	Inactive
珠海聯邦制藥股份有限公司 (note d)	PRC	RMB313,600,000	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦制藥有限公司 (note b)	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦藥業有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 (note b)	PRC	RMB16,450,503	**100%**	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 (note b)	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司 (note c)	PRC	RMB15,000,000	**100%**	100%	Investment holdings PRC
聯邦制藥（內蒙古）有限公司 (note b)	PRC	RMB320,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC

36. LIST OF SUBSIDIARIES *(Continued)*

Notes:

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

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

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

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

FINANCIAL SUMMARY

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	1,200,104	1,720,442	2,080,479	2,594,937	**3,755,856**
Profit before taxation	176,276	175,471	221,778	558,341	**532,530**
Taxation	(26,917)	(42,526)	(47,940)	(47,878)	**(102,361)**
Profit for the year	149,359	132,945	173,838	510,463	**430,169**
Attributable to:					
Equity holders of the Company	132,111	116,566	173,838	510,463	**430,169**
Minority interests	17,248	16,379	–	–	**–**
	149,359	132,945	173,838	510,463	**430,169**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,486,908	3,331,233	3,712,220	4,750,088	**6,170,258**
Total liabilities	(1,511,511)	(2,206,226)	(2,400,625)	(2,297,556)	**(3,353,763)**
	975,397	1,125,007	1,311,595	2,452,532	**2,816,495**
Equity attributable to equity holders of the Company	881,112	1,012,965	1,311,595	2,452,532	**2,816,495**
Minority interests	94,285	112,042	–	–	**–**
	975,397	1,125,007	1,311,595	2,452,532	**2,816,495**

Note: The financial summary for the three years ended 31 December 2006 is extracted from the Prospectus, while the financial summary for the years ended 31 December 2008 and 2007 is extracted from the Company's consolidated financial statements for the year ended 31 December 2008.

MAIN PRODUCTS