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 2010

Contents

2010 CORPORATE CALENDAR OF THE UNITED LABORATORIES

1 January 2010

The United Laboratories was granted the "2009 Outstanding Brand Enterprises in Environmental Protection".

The United Laboratories was recognized as an "Innovative Enterprise in Guangdong Province".

2 February 2010

The amoxicillin bulk medicine of Inner Mongolia Company passed the on-site inspection for medicine registration.

The United Laboratories' workshops of insulin bulk medicine and insulin finished products successfully passed the GMP certification.

United Laboratories Co. Ltd (聯邦制藥股份有限公司) was granted the "Outstanding Unit in Corporate Culture of Zhuhai city of 2009" by Publicity Department of Zhuhai city.

3 March 2010

The United Laboratories was successively awarded the "Certificate of Quality Control System" and "Certificate of Environment Management System" issued by China Quality Certification Centre.

The handover of "United Laboratories Caring Hospital" was completed.

4 April 2010

Zhuhai United Laboratories made an emergency donation of medicine worth RMB500,000 to the affected area of earthquake.

Zhuhai United Laboratories was granted the "Outstanding Group of Zhuhai city".

Chengdu Company was granted the "Model Group (Team) of Chengdu City".

珠海市萬邦藥業有限公司 and Zhuhai United Laboratories Co. Ltd (珠海聯邦制藥股份有限公司) were jointly granted the "Top 100 Enterprises in Tax Contribution of Zhuhai of 2009" by State Administration of Taxation and Local Administration of Taxation of Zhuhai city.

5 May 2010

The environmental project of Phase II of Inner Mongolia Company passed the acceptance check conducted by the Research Academy of Environmental Sciences of the Autonomous Region.

6 June 2010

The United Laboratories ranked among the "Top 100 Enterprises in Chinese Pharmaceutical Industry of 2009".

A number of workshops of the finished products plant in Zhongshan passed the GMP certification and re-certification.

8 August 2010

The United Laboratories obtained an approval from the State Food and Drug Administration for the production of Cefprozil tablets (頭孢丙烯片).

2010 CORPORATE CALENDAR OF THE UNITED LABORATORIES

9 September 2010

The energy-saving and technology transformation project of bulk medicine plant of the United Laboratories commenced on a trial basis.

10 October 2010

The United Laboratories successfully passed the on-site inspection for the production and registration of insulin.

The finished products workshop of Inner Mongolia Company passed the GMP certification.

The quality inspection centre of bulk medicine plant in Zhuhai successfully passed the accreditation assessment for laboratory.

11 November 2010

Accompanying by Chen Ji, Secretary of district party committee of Jinwan District of Zhuhai city, a delegation of 8 persons of Research Group of Central Party School, led by Wei Guo, visited the bulk medicine plant of the United Laboratories in Zhuhai.

A delegation led by Li Yizhong, Minister of Industry and Information Technology, made an inspection visit to the bulk medicine plant of the United Laboratories in Zhuhai.

12 December 2010

Zhuhai United Laboratories and Zunyi Medical College (Zhuhai Campus) cooperatively established the "Guizhou Provincial Education and Innovation Base for Post-Graduate Students in Immunology".

The United Laboratories was awarded the Million Science and Technology Award in the 2009 Science and Technology Award of Zhuhai city, becoming one of the two awarding enterprises in Zhuhai.

After 8 years of effort, the United Laboratories eventually obtained approvals from the State Food and Drug Administration for the production of three recombinant human insulin finished products.

The United Laboratories proudly received the Hong Kong Outstanding Enterprises (Main Board) Award of 2010 of Economic Digest.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(Vice-Chairman and General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping

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 REPRESENTATIVE

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

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 BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
HSBC Bank (China) Company Limited,
Guangzhou Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch
Bank of China Limited, Zhuhai Branch

Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited

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

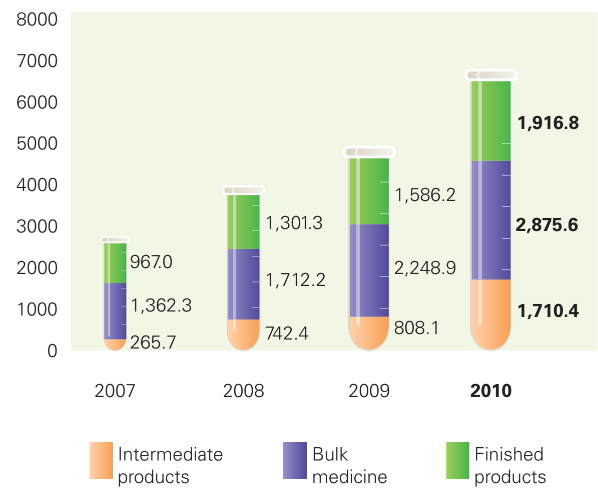
www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

FINANCIAL HIGHLIGHTS

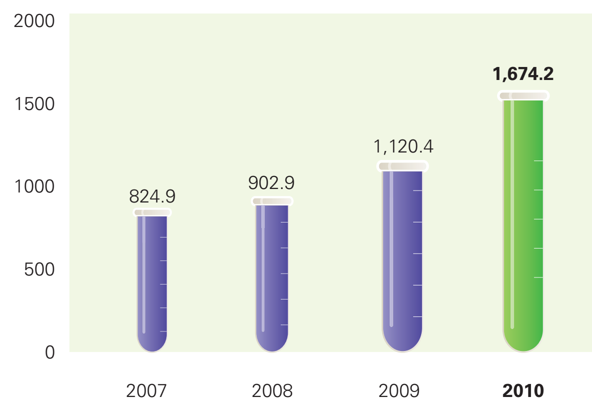
(HK$ thousand, except where otherwise stated)	**2010**	2009	%Change
Turnover	**6,502,817**	4,643,177	40.1%
EBITDA	**1,674,224**	1,120,378	49.4%
Profit before taxation	**1,163,280**	693,370	67.8%
Profit for the year attributable to owners of the Company	**974,157**	541,443	79.9%
Basic earnings per share (HK cents)	**78.2**	45.1	73.4%
Return on average total equity (%)	**23.5%**	18.0%	30.6%
Net gearing ratio* (%)	**29.4%**	54.0%	(45.6%)

*Calculated as total borrowings less pledged deposits and cash and bank balances to total equity

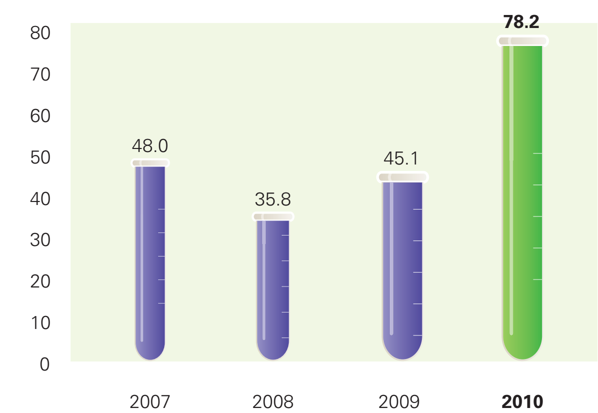
TURNOVER
(HK$ million)



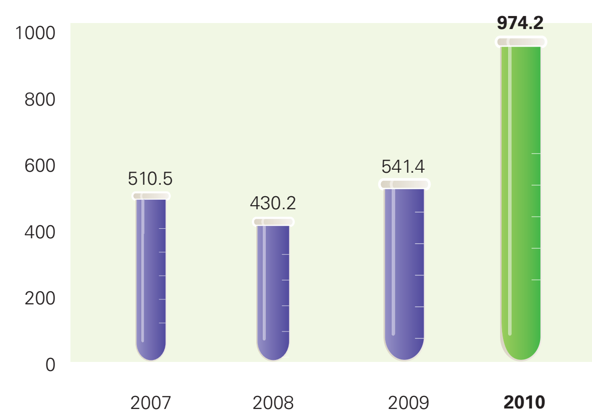
EBITDA
(HK$ million)



BASIC EARNINGS PER SHARE
(HK Cents)



PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY
(HK$ million)



CHAIRMAN'S STATEMENT

Company Goal

Love China, for China

Company Guideline

Kindness, conscientiousness, diligence and high efficiency

Company Commitment

Manufacture first-class products, provide first-class service, cultivate first-class professionals, be a model in the pharmaceutical industry

Mr. Choy Kam Lok
Chairman

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I am pleased to present to our shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2010.

2010 was a fruitful year for the Group. Returns were seen from the investments made for the Inner Mongolian plant and sales team. There was a remarkable increase in our sales volume while other operating figures continued to scale new heights. During the period under review, the Group's turnover amounted to approximately HK$6,500 million, an increase of 40.1% over that of last year. EBITDA and profit before taxation were approximately HK$1,670 million and HK$1,160 million respectively, representing a growth of 49.4% and 67.8% over last year, respectively which broke the historical highs again. The Group's net profit for the year amounted to HK$970 million, nearly a 79.9% growth on a year-on-year basis.

With the production line of intermediate products in the Inner Mongolian plant coming to a full operation and product prices being stabilized, the sales of intermediate products made a greater contribution to the Group. During the year, the sales of bulk medicine also marked satisfactory growth. Two products achieved record-high turnovers. For the segment of finished products, although some products were affected by price-cut policies during the year, there were no significant impacts on the Group whose turnover and profits, conversely, continued to score new highs. During the year, the training for the sales team of finished products was completed, harvesting 3,000 professional salespersons with rich experience and extensive networks. With the improvement of our sales networks and outlets, there was an increase in the market share and coverage of a number of our major products, thereby injecting momentum for our future performance.

The effects of the financial tsunami and the tightening of the national environmental regulatory requirements for the industry fueled the integration in the industry. As the leading enterprise of the industry, the Group benefited from the integration and strengthened its leading market position. Cost control has always been a focus of the Group. With the cost reduced significantly during the year, the gross profit margins of intermediate products improved, thus enhancing the Group's competitiveness to further seize the market shares. The management has learnt from market changes and matured its skills. This has solidified the foundation of the Group, and helped it handle future objective changes in the market environment. Meanwhile, the Group's results were boosted as the government gradually implemented the RMB850 billion investment in the national medical reform and promulgated The Essential Drugs List (for the Fundamental Medical and Health Institutions). The promotion of medical insurance projects stimulated market demand, giving the Group a business opportunity to fully enhance its market promotion.

The Group has the advantages of the vertically integrated production model with five major production bases complementing each other. This helped to keep our costs down and our efficiency high. Following the full operation of the vertically integrated plant in Inner Mongolia, and the expansion of our plants in Hong Kong, Zhongshan and Zhuhai, our production capacity was increased, fully reflecting the cost effectiveness and creating a synergy effect. During the period under review, the Group's leading position in the industry was evidently strengthened. The vertically integrated model will continue to be the Group's cutting edge. All our plants have passed national GMP certification, while some received the ISO9001 and ISO14001 certification. Some of the major products were also granted the certifications or acceptance of FDA from the US, COS from Europe, GMP from Japan. The achievements not only facilitated the internationalization of the customer base, and consolidated the industry leading status of the Group as well. At the end of the year, the approvals for five recombinant human insulin products was good news for the Group and boosted the morale for our staff members.

CHAIRMAN'S STATEMENT

For 2011, the Group is well prepared to strive for another year of excellence. 2011 will see accelerated market integration where the weak will be eliminated while the strong remains. Therefore, the Group believes that the market shares of intermediate products and bulk medicine will further increase. It is expected that our sales volume will reach a new high in sync with price rise, thereby providing a steady profit base for the Group. Our finished products will continue to benefit from the three national policies, namely, medical reform, medical insurance and agricultural assistance. Coupled with the improvement of the sales team and network as well as the support of marketing activities, it is believed that our profit will rise to a new level. Looking ahead, the Group will adopt the following practical measures to develop and improve its business operations.

The Group will focus on development in the global market. After a number of years' observations and trials, the Group decided to set up offices in countries such as Brazil, India and Dubai as its stepping stones to tap into the global market. In recent years, the Group's products have been granted certifications by many different countries around the world, and continuously received orders and enquiries from foreign clients. Hence the Group decides to promote its products worldwide. There has been an increasing demand and thus higher prices for intermediate products and bulk medicine in such developing countries and in the Middle East market. Building on the success of our existing domestic sales and exports, the Group plans to promote its export growth. With the establishment of new offices, the Group will develop better relationships with its local clients and attract new ones as well. The Group strong production bases and years of export experience are not only its strengths but a drive for business growth. The Group will expand its production capacity to meet demands.

The Group will make more investment in the Inner Mongolian plant. As evident by the statistics over the past two years, its Inner Mongolian plant contributed greatly to the Group. The area is abundant of inexpensive raw materials, energy and labour resources, all of which helped the Group to get the advantage of low cost. Hence the Group plans to inject more funds into the development of new vertically integrated plants there. Economies of scale will bring about further business growth for the Group. Also, approval was obtained from the Government to use the enzyme production process developed by the Group to produce bulk Amoxicillin. This will help the Group to lower its cost and increase production efficiency. Such production technology is the most advanced in the world. It involves no water pollution and impurities and requires less energy which leads to a cost reduction. Therefore, the new production plants will operate based on the new method. It can effectively keep up with the development of our export and domestic sales.

As the Group continues to further the brand building and develop the sales channels, networks and personnel, the management level believes that its products will harvest excellent results for the long run. The sales team now comprises approximately 3,000 members, reaching out to various parts of China. Earlier on, the Group nominated three members from the managerial level of the sales team into the Board, demonstrating the Board's attachment of significance in the area. The joining of the three sales directors will help the Group to formulate and support the sales strategy of finished products as part of its long-term development plan. The Group also plans to expand into rural and community markets. It is expected that the expansion will drive up the Group's operating results significantly.

CHAIRMAN'S STATEMENT

Following the approvals for manufacturing recombinant human insulin products, the Group will invest more resources to develop the concerned markets. The Group will continue to hold expert seminars in various regions to promote relevant products in addition to previous presentations which achieved desired results. The Group will also strengthen the development and approval application of the third generation of insulin finished products in order to increase product diversification and enhance product competitiveness to gain the best proportion of market share in this market worth of billions of Renminbi. The Group will continue to expand production lines. It is believed that there will be a significant increase in the sales amount during the year. Over the past year, the first recombinant human insulin product was launched. Given that the product has good efficacy equivalent to that of imported insulin and was priced competitively, it was well received in the market and achieved good tender results beyond expectation. Some data show that the number of current diabetics in China is over 100 million and continues to increase. The market for recombinant human insulin is RMB50 billion with a rapid annual growth of 20-30%. As such, the product will become a major drive for the Group's future growth.

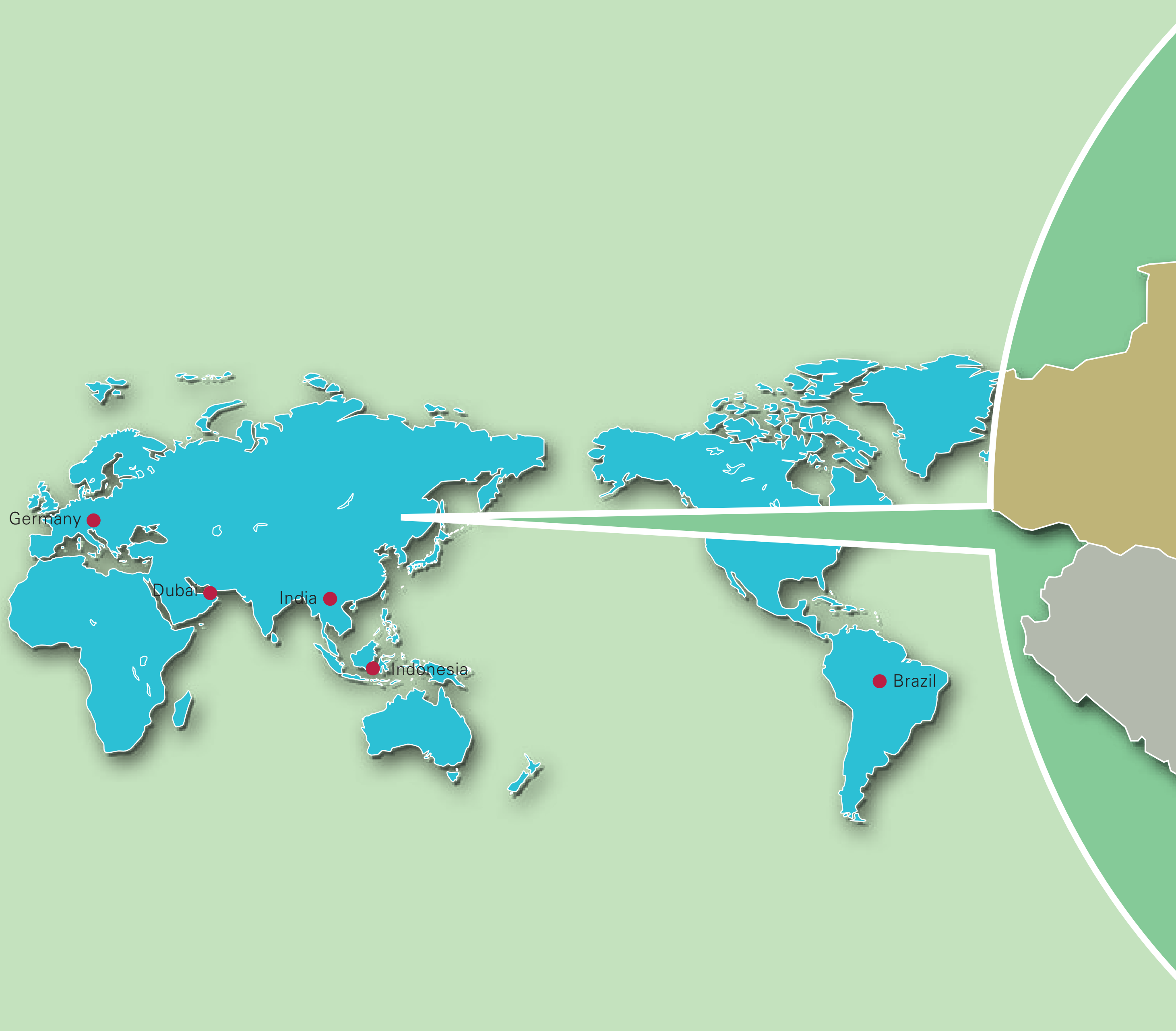
Looking ahead, the Group will catalyze its process of internationalization in order to become a leading pharmaceutical company in the world. We will capitalize on our product vertical integration model, economies of scale and the TUL brand to seize the domestic and overseas opportunities proactively with a view to scoring another high. The Group believes that, with its solid foundation, the recognition and support of analysts and investors coupled with the vision and efforts from the management and all employees, we will continue to yield remarkable results to thank our shareholders for their support.

I would like to express my appreciation to my fellow directors and all staff for their excellent efforts to the Group during the year.

Choy Kam Lok
Chairman

Hong Kong, 22 March 2011

SALES NETWORK COVERS THE WHOLE WORLD

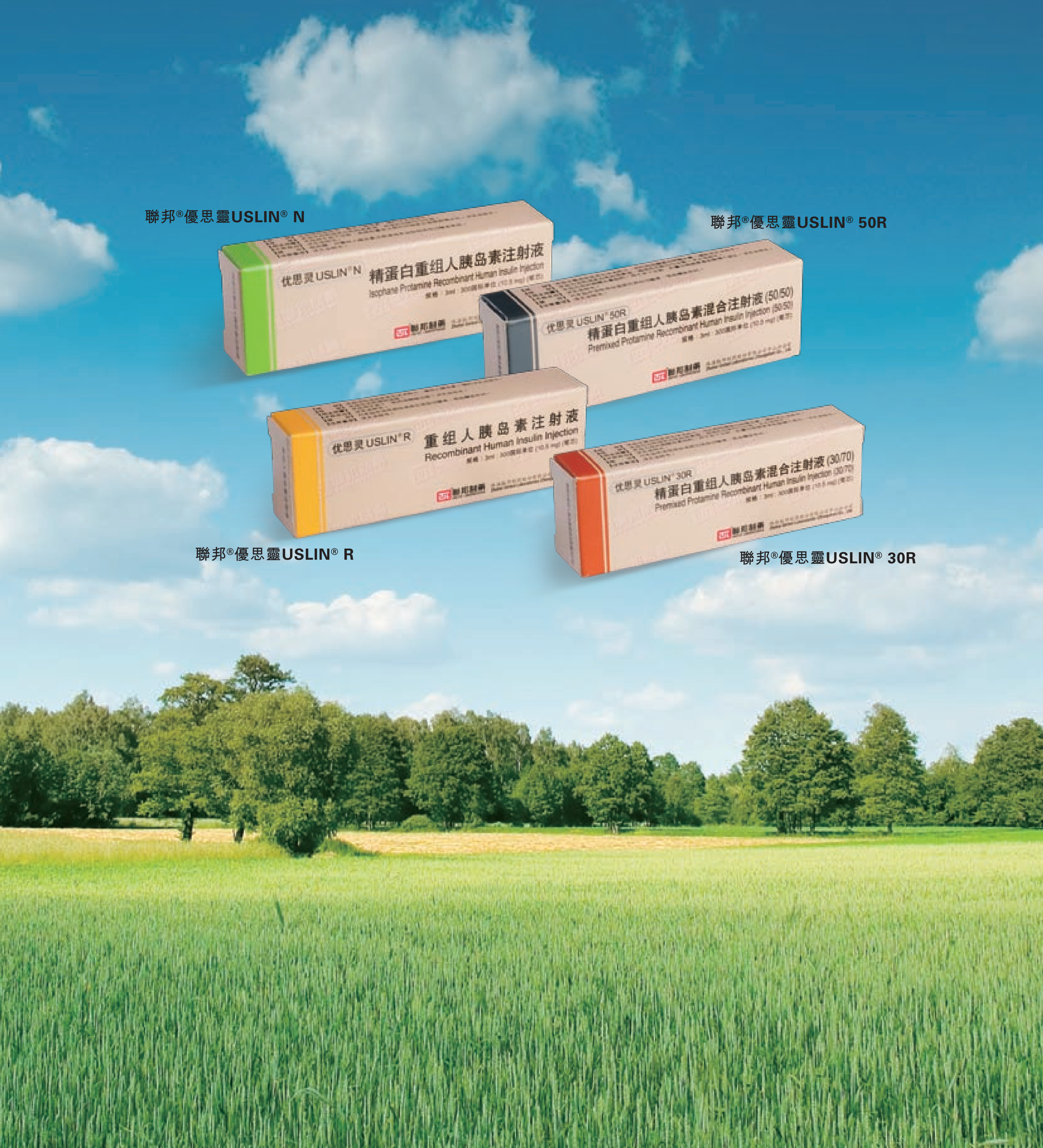


Provinces / Municipalities where sales offices are located

Overseas sales offices


Heilongjiang
Jilin
Liaoning
Xinjiang
Inner Mongolia
Tangshan
Beijing
Tianjin
Hebei
Shandong
Shanxi
Jiangsu
Henan
Shaanxi
Shanghai
Anhui
Hubei
Chongqing
Sichuan
Zhejiang
Jiangxi
Hunan
Guizhou
Fujian
Yunnan
Guangxi
Guangdong
Hainan

New Products Drive
Sales Growth



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2010, the Group achieved excellent results and recorded a turnover of approximately HK$6,502.8 million, an increase of 40.1% as compared to last year. The profit attributable to shareholders was approximately HK$974.2 million, representing an increase of 79.9% as compared to last year. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products increased 48.2%, 27.8% and 20.8% respectively as compared with last year. Segmental profit of intermediate products and finished products increased by 318.6% and 9.0% respectively and segmental profit of bulk medicine products decreased by 10.1% as compared with last year.

Reviewing 2010, both the Group's turnover and net profits scaled new heights, which was an achievement made through all the staff's concerted effort. Undoubtedly, teamwork spirit is the key to our success. The Group had long ago formulated forward-looking strategies on environmental protection, cost control, capacity expansion, product diversification, strengthened promotion and market penetration in order to further enhance its leading market position and expand its operation scale. The implementation of these strategies relied upon the management to make proper forecast and effective measures.

The full operation of intermediate production line of Inner Mongolia plant and strong sales team have been a driving force for the remarkable success of the Group. During the year, owing to the further medical reform in China, the whole pharmaceutical industry suffered hardships. By using the aforesaid strategies, the Group not only overcame the difficulties, but also created new opportunities. The Group's outstanding performance was due to the following factors:

Production advantage of Inner Mongolia plant

During the year, the intermediate production line in the Inner Mongolia plant of the Group was fully put into production and operated smoothly, which much boosted our production capacity and the production cost of intermediate products under proper control. The selling price of intermediate products for the year was stable as

MANAGEMENT DISCUSSION AND ANALYSIS

compared with last year. With the lowering of our production cost the gross profit margins of intermediate products increased during the year. In the year, the whole China had great demand for antibiotics finished products, which indirectly boosted manufacturers for intermediate products and, in turn, increased our turnover of such products for the year by 111.7% over the previous year.

Ibuprofen Sustained Release Capsules

Growing sales and export volume of bulk medicine

During the year, the Group's export rose 92.6% due to higher demand from overseas drug manufacturers for our intermediate and bulk medicine products, especially from India and Middle East. In this year, the Group put more resources to boost the sales volume for overseas markets, including expanding its sales team of intermediate and bulk medicine products so as to mitigate the risk of business concentration in the domestic sales in China.

In addition, the enzyme production process, the most advanced production technology, will be adopted by the Group to manufacture its bulk Amoxicillin, which has a high quality, high purity and low contamination, and is of higher environmental protection that leads to lower cost. This was a critical breakthrough in our production technology. Currently, the Group is the only manufacturer of bulk Amoxicillin who employing enzyme production process in its production.

Development of new products and effective penetration into China's rural market

During the year, our sales team continued to accelerate its PRC rural market development and achieved good results gradually. Higher turnover of our finished products was recorded due to an increase market share in the rural areas.

During the year, we were informed by the State Food and Drug Administration of China (the "SFDA") that approvals were granted for four insulin finished product of the Group in respect of their applications, which will constitute a driving force for the growth of turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had pledged bank deposits, cash and bank balances amounted to HK$845.7 million (2009: HK$481.1 million).

As at 31 December 2010, the Group had interest-bearing bank borrowings of approximately HK$2,350.1 million (2009: HK$2,205.3 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$1,391.0 million are fixed rate loans while the remaining balance of approximately HK$959.1 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 2010, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2010	2009
	HK$'000	HK$'000
		(Restated)
Property, plant and equipment	**1,373,311**	1,384,294
Prepaid lease payments	**111,111**	109,169
Bills receivables	**230,576**	58,371
Pledged bank deposits	**381,624**	288,645
	2,096,622	1,840,479

As at 31 December 2010, current assets of the Group amounted to approximately HK$4,666.0 million (2009: HK$3,220.1 million). The Group's current ratio was approximately 1.06 as at 31 December 2010, as compared with 0.77 as at 31 December 2009. As at 31 December 2010, the Group had total assets of approximately HK$9,607.9 million (2009: HK$7,460.0 million) and total liabilities of approximately HK$4,498.0 million (2009: HK$4,267.0 million), representing a net gearing ratio (calculated as total borrowings less pledged deposits and cash and bank balances to total equity) of 29.4% as at 31 December 2010, as compared with 54.0% as at 31 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

The Company issued 50,000,000 new shares at HK$8.50 and 51,500,000 new shares at HK$15.22 respectively, the net proceeds to be received by the Company amounting to approximately HK$416 million and HK$775 million respectively.

For the year ended 31 December 2010, all proceeds has been applied for the purposes in accordance with the plans disclosed in the Company's announcements dated 29 April 2010 and 15 September 2010 respectively.

Triprolidine Hydrochloride Capsules

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.

Paracetamol Triprolidine Hydrochloride and Pseudoephedrine Hydrochloride Tablets

CONTINGENT LIABILITIES

As at 31 December 2009 and 2010, the Group had no material contingent liabilities.

OUTLOOK FOR 2011

2011 will see intense market competition in the China's pharmaceutical industry where only the strongest can survive. The Group believes that some small- and medium-sized manufacturers will have to transform or leave the market due to its inability to lower their production costs. We will maintain our leading market position and increase our market share while seeking opportunities to expand our market presence. To strive for greater achievement, the Group will take the following measures:

Development of international market

The Group will establish regional offices in countries and areas, like Brazil, India and Dubai, as its stepping stones to enter the global market. The quality of the Group's products has attained world-class level and met international safety standard, receiving certifications and sales approval around the world. This will help our products to tap into the international market and, in turn, boost our business growth and diversify risks in the regional sales. The new offices planned will be located in developing countries or regions, where there is an increasing demand for intermediate products and bulk medicine as well as a higher price for these products, all helping the Group's successful expansion into the markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Application of advanced production technology and Increase in the effectiveness of the production base in Inner Mongolia

The Group will continue to develop a better production technology to reduce costs, and fully apply its self-developed enzyme production process to the production base in Inner Mongolia with a view to further lowering the production cost and increasing the gross profit margins. Reduction in production costs means greater competitive edges for our products, and thus higher market shares. The Group will therefore invest more capital in the Inner Mongolia production base to establish a new vertically integrated plant in order to further benefit from the economies of scale and strive for better business performance.

A potential impetus for growth from recombinant human insulin products

The SFDA's approval for our five insulin products will be a driving force for the growth of our sales. Given that the Group's insulin products are more economical than the imported products and have strong competitiveness in the PRC market, we believe that such products will certainly seize a significant market share there. In 2011, the Group will strengthen the development in the insulin market as soon as possible to obtain a leading market position. While expanding into the insulin market, the Group will speed up the building of an insulin production line to enhance its production capacity to satisfy the demand in the market. We expect that our insulin products will serve as a significant impetus for the Group's growth.

EMPLOYEES AND REMUNERATION

As at 31 December 2010, the Group had approximately 11,000 (2009: 9,100) 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

New directors joining to the Board

Mr. Leung Wing Hon *Ms. Zou Xian Hong* **Ms. Peng Wei** *Ms. Zhu Su Yan* *Mr. Fang Yu Ping*

DIRECTORS

Executive directors

Mr. Choy Kam Lok (蔡金樂), aged 69, 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. 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 (彭韡), aged 47, is an executive director, the Vice-Chairman and the General Manager of the Company. Ms. Peng was appointed as the Vice-Chairman of the Company on 1 December 2010. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Leung Wing Hon (梁永康), aged 49, 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 33, 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).

Ms. Zou Xian Hong (鄒鮮紅), aged 45, is the vice president of the Group. Ms. Zou graduated from Nanjing Medical College of China Pharmaceutical University (中國藥科大學南京藥學院) in 1984 and obtained her Executive Master of Business Administration from Hunan University (湖南大學) in 2005. In June 2010, Ms. Zou obtained a doctorate in management science and engineering at the Business School of Central South 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.

Ms. Zhu Su Yan (朱蘇燕), aged 45, is the vice president of the Group. Ms. Zhu graduated from the 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)), 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 joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, manager and vice president of national hospital development department and the deputy general manager 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. Fang Yu Ping (方煜平), aged 46, is the vice president of the Group. Mr. Fang graduated from the 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)), with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for eight years. In 1995, Mr. Fang joined the Group and had held a number of positions including the head of China sales office, district manager, regional manager, duty general manager and etc.. He was promoted to vice president of the Group in 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Non-executive director

Ms. Choy Siu Chit (蔡紹哲), aged 37, 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 62, 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.

Mr. Huang Bao Guang (黃寶光), aged 62, 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 48, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Tang Bin Xi (唐彬喜), aged 43, 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 43, 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.

Mr. Liu Bing Yang (劉炳楊), aged 60, is general manager of Guangdong Kaiping Kingly Capsules Limited (廣東開平金億膠囊有限公司) of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University (廣州橡膠工業局職工大學) with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Li Guang Wei (李光偉), aged 44, is general manager of United Laboratories (Inner Mongolia) Limited (聯邦制藥（內蒙古）有限公司) of the Group. Mr. Li graduated from Huabei Pharmaceutical Factory's Employees University (華北制藥廠職工大學) in 1991. Mr. Li jointed the Group in 2005 and had served as assistant manager of engineer department in United Laboratories (Chengdu) Limited (聯邦制藥（成都）有限公司). Prior to joining the Group, Mr. Li had served in a number of pharmaceutical enterprises and was responsible for building of production lines and improvement of production process with over 15 years experience in this field. Mr. Li had been responsible for improvement of production process in the Group's Chengdu factory and building of the Group's Inner Mongolia's factory. Mr. Li is currently responsible for the management of the Group's Inner Mongolia's factory.

Mr. Yang Qiu Hong (楊秋紅), aged 43, the general manager of bulk medicine sales department in the Group's Zhuhai United Laboratories Co. Ltd (珠海聯邦制藥股份有限公司). Mr. Yang graduated from Qingdao University of Science and Technology (formerly named as "Qingdao College of Chemical (青島化工學院)") in 1991. Mr. Yang joined the Group in 1999 and had responsible for production, sales and research in the Group's Zhuhai United Laboratories Co. Ltd (珠海聯邦制藥股份有限公司). Mr. Yang is currently responsible for the Group's sales of intermediate and bulk medicine products.

Mr. Zhang Wen Yu (張文玉), aged 42, is the general manager of United Laboratories (Chengdu) Limited (聯邦制藥（成都）有限公司). Mr. Zhang graduated from school of microbiology of Shandong University (山東大學). Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Chengdu factory.

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 2010.

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 2010 is set out in Note 7 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 35 of this annual report.

During the year, the Company paid an interim dividend of HK12 cents per share.

The Board proposed a final dividend of HK18 cents per share for the year ended 31 December 2010.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 26 May 2011 to 30 May 2011 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the proposed 2010 final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2011.

The dividend warrants are expected to be dispatched to shareholders on about 10 June 2011.

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 96 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.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year 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$2,426.7 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 pages 38 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised 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

During the year ended 31 December 2010, save for issue of 50,000,000 new shares at HK$8.5 and 51,500,000 new shares at HK$15.22, 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 2010, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales respectively for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 10.0% and 35.5% respectively of the Group's total purchases 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.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM THE INTERNATIONAL PLACING

Pursuant to the Placing and Subscription Agreements entered into between the Company, its parent company and the placing agent dated 29 April 2010 and 15 September 2010, the Company issued 50,000,000 new shares at HK$8.5 per share and 51,500,000 new shares at HK$15.22 per share respectively and the net proceeds were approximately HK$416,000,000 and HK$775,000,000 respectively.

As at 31 December 2010, all proceeds has been applied in accordance with the plans disclosed in the Company's announcements dated 21 April 2010 and 15 September 2010.

DIRECTORS

The directors of the Company during the year ended 31 December 2010 and up to the date of this report were as follows:

Executive Directors

Mr. Choy Kam Lok	*(Chairman)*
Ms. Peng Wei	*(Vice-Chairman and General Manager)*
Mr. Leung Wing Hon	
Mr. Tsoi Hoi Shan	
Ms. Zou Xian Hong	(appointed on 1 November 2010)
Ms. Zhu Su Yan	(appointed on 1 November 2010)
Mr. Fang Yu Ping	(appointed on 1 November 2010)

Non-Executive Directors

Ms. Choy Siu Chit

Independent Non-Executive Directors

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

In accordance with article 87 of the Company's articles of association, Mr. Choy Kam Lok, 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, Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping will retire by rotation 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 18 to 20 of this annual report.

REPORT OF THE DIRECTORS

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 annual salary payable by the Company to Mr. Choy Kam Lok is HK$4,800,000 and the annual salary payable to each of Ms. Peng Wei and Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. Ms. Peng Wei is also entitled to a monthly performance bonus not exceeding RMB50,000 as determined by the executive Directors of the Company with reference to performance of the Group. 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 2010 with the Company under which he was appointed from 3 April 2010 for a maximum period of three years. 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$1,800,000 per annum.

Each of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping has entered into a service contract dated 1 November 2010 with the Company under which each of them was appointed from 1 November 2010 for a maximum period of three years. Mr. Their subsequent appointment shall also be subject to their 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 basic emolument of Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive Directors of the Company with reference to performance of the Group.

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. Ms. Choy Siu Chit is entitled to an annual director's fee of HK$960,000. Ms. Choy Siu Chit is also entitled to an annual emolument of HK$840,000 for her service as directors of certain subsidiaries of the Group.

Each of Mr. Huang Bao Guang and Mr. Song Ming has entered into a letter of appointment dated 25 May 2007 with the Company, and Mr. Chong Peng Oon has entered into a letter of appointment dated 23 March 2010 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. The annual director's fee for each of the above three independent non-executive directors is HK$240,000.

REPORT OF THE DIRECTORS

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 2010, 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	833,170,000	*(1)*	Founder of a trust	64.02%
Mr. Choy Kam Lok	Gesell Holdings Limited	805,000,000	*(2)*	Founder of a trust	61.85%
Mr. Choy Kam Lok	Heren Far East Limited	805,000,000	*(3)*	Founder of a trust	61.85%
Ms. Peng Wei	Company	1,798,000		Personal interest	0.14%
Mr. Leung Wing Hon	Company	400,000		Personal interest	0.03%
Mr. Tsoi Hoi Shan	Company	50,000		Personal interest	0.01%
Ms. Zou Xian Hong	Company	700,000		Personal interest	0.05%
Ms. Zhu Su Yan	Company	300,000		Personal interest	0.02%
Mr. Fang Yu Ping	Company	100,000		Personal interest	0.01%
Ms. Choy Siu Chit	Company	100,000		Personal interest	0.01%

REPORT OF THE DIRECTORS

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 directors of the Company, Mr. Tsoi Hoi Shan and 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 805,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 28,070,000 shares of the Company and 100,000 shares of the Company held by the spouse of Mr. Choy, which is deemed interests of Mr. Choy.

(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 2010, 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	805,000,000	61.85%
Gesell	*(1)*	Interest in a controlled corporation	805,000,000	61.85%
DBS Trustee H.K. (Jersey) Limited	*(2)*	Trustee	805,000,000	61.85%

REPORT OF THE DIRECTORS

Note:

(1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 805,000,000 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 805,000,000 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 2010.

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 29 to 32 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, 22 March 2011

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 2010, 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 seven 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 18 to 20. 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
Mr. Tsoi Hoi Shan	4/4	N/A	N/A
Ms. Zou Xian Hong	1/1	N/A	N/A
Ms. Zhu Su Yan	1/1	N/A	N/A
Mr. Fang Yu Ping	1/1	N/A	N/A
Non-executive Director			
Ms. Choy Siu Chit	4/4	N/A	N/A
Independent Non-executive Directors			
Mr. Chong Peng Oon	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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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. The members of remuneration committee comprise of three independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming. Mr. Chong Peng Oon is the chairman of the remuneration committee. The terms of reference of the remuneration committee are consistent with the relevant provisions set out in the Corporate Governance Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the remuneration committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the remuneration committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the remuneration committee are posted on the Company's website.

The remuneration committee held one meeting during the year. It undertook a review of the remuneration and benefits of directors. The remuneration committee ensures that no director is involved in determining his/her own emoluments.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE REPORT

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 two 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.

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 2010.

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 2010, 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 2010, 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 2010 amounted to approximately HK$3,450,000 and HK$1,200,000 respectively.

On behalf of the Board

Choy Kam Lok
Chairman

Hong Kong, 22 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS 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 35 to 95, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

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 that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 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
22 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	6,502,817	4,643,177
Cost of sales		(3,934,763)	(2,829,159)
Gross profit		2,568,054	1,814,018
Other income	8	40,216	22,573
Other gains and losses	9	16,449	(274)
Selling and distribution expenses		(939,082)	(718,022)
Administrative expenses		(359,927)	(291,582)
Other expenses		(70,612)	(44,853)
Finance costs	10	(91,818)	(88,490)
Profit before taxation		1,163,280	693,370
Taxation	12	(189,123)	(151,927)
Profit for the year attributable to owners of the Company	13	974,157	541,443
Other comprehensive income			
Exchange differences arising on translation to presentation currency		139,083	15,089
Total comprehensive income for the year attributable to owners of the Company		1,113,240	556,532
Basic earnings per share (HK cents)	15	78.2	45.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	31.12.2010 HK$'000	31.12.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	*16*	**4,651,121**	4,009,768	3,488,981
Prepaid lease payments	*17*	**108,523**	106,687	109,911
Goodwill	*18*	**3,588**	3,437	3,428
Intangible assets	*19*	**3,270**	5,450	3,935
Deposit for leasehold land		**3,551**	3,409	–
Deposits for acquisition of property, plant and machinery		**136,185**	92,541	128,319
Available-for-sale investment	*20*	**–**	–	–
Deferred tax asset	*27*	**35,659**	18,580	6,249
		4,941,897	4,239,872	3,740,823
Current assets				
Inventories	*21*	**1,248,199**	884,723	773,991
Trade and bills receivables, deposits and prepayments	*22*	**2,567,263**	1,851,785	1,198,190
Derivative financial instruments	*23*	**2,268**	–	3,240
Prepaid lease payments	*17*	**2,588**	2,482	2,495
Pledged bank deposits	*24*	**381,624**	288,645	286,045
Bank balances and cash	*24*	**464,055**	192,489	165,474
		4,665,997	3,220,124	2,429,435
Current liabilities				
Trade and bills payables and accrued charges	*25*	**1,968,439**	1,924,104	1,509,928
Tax payables		**83,704**	68,697	32,836
Borrowings	*26*	**2,350,074**	2,205,284	1,775,542
		4,402,217	4,198,085	3,318,306
Net current assets (liabilities)		**263,780**	(977,961)	(888,871)
Total assets less current liabilities		**5,205,677**	3,261,911	2,851,952

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**31.12.2010 HK$'000**	31.12.2009 HK$'000 (Restated)	1.1.2009 HK$'000 (Restated)
Non-current liability				
Deferred tax liabilities	*27*	**95,735**	68,884	35,457
		5,109,942	3,193,027	2,816,495
Capital and reserves				
Share capital	*28*	**13,015**	12,000	12,000
Reserves		**5,096,927**	3,181,027	2,804,495
Equity attributable to owners of the Company		**5,109,942**	3,193,027	2,816,495

The consolidated financial statements on pages 35 to 95 were approved and authorised for issue by the Board of Directors on 22 March 2011 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 2010

	Attributable to owners 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 2009	12,000	768,901	286,032	267,092	328,940	1,153,530	2,816,495
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	–	–	–	–	15,089	–	15,089
Profit for the year	–	–	–	–	–	541,443	541,443
Total comprehensive income for the year	–	–	–	–	15,089	541,443	556,532
Dividend	–	–	–	–	–	(180,000)	(180,000)
At 31 December 2009	12,000	768,901	286,032	267,092	344,029	1,514,973	3,193,027
Changes in equity during the year:							
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**139,083**	**–**	**139,083**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**974,157**	**974,157**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**139,083**	**974,157**	**1,113,240**
Shares issued	**1,015**	**1,207,815**	**–**	**–**	**–**	**–**	**1,208,830**
Transaction costs attributable to issue of shares	**–**	**(17,655)**	**–**	**–**	**–**	**–**	**(17,655)**
Appropriations	**–**	**–**	**–**	**97,167**	**–**	**(97,167)**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**(387,500)**	**(387,500)**
At 31 December 2010	**13,015**	**1,959,061**	**286,032**	**364,259**	**483,112**	**2,004,463**	**5,109,942**

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective 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 non-controlling interests acquired and the fair value of considerations paid for purchase of additional interests in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 **HK$'000**	2009 HK$'000 (Restated)
Operating activities		
Profit before taxation	**1,163,280**	693,370
Adjustments for:		
(Reversal of) provision of allowance for inventories	**(295)**	2,429
Provision of allowance for doubtful debts	**1,583**	1,264
Amortisation of intangible assets	**2,347**	1,859
Amortisation of prepaid lease payments	**2,669**	2,557
Depreciation of property, plant and equipment	**414,110**	334,102
Finance costs	**91,818**	88,490
Bank interest income	**(5,763)**	(3,588)
Net gain on disposal of property, plant and equipment	**(2)**	(576)
Fair value change on derivative financial instruments	**(2,268)**	3,240
Operating cash flows before movements in working capital	**1,667,479**	1,123,147
Increase in inventories	**(322,405)**	(109,923)
Increase in trade and bills receivables, deposits and prepayments	**(646,342)**	(649,388)
Increase in trade and bills payables and accrued charges	**135,762**	473,030
Cash generated from operations	**834,494**	836,866
Income taxes paid	**(166,286)**	(95,046)
Net cash from operating activities	**668,208**	741,820
Investing activities		
Payments for purchase of property, plant and equipment	**(1,088,203)**	(850,284)
Proceeds on disposal of property, plant and equipment	**8,319**	766
(Increase) decrease in prepaid lease payments	**(104)**	1,192
Addition of pledged bank deposits	**(237,504)**	(66,555)
Withdrawal of pledged bank deposits	**156,384**	65,523
Interest received	**5,763**	3,588
Acquisition of intangible assets	**–**	(3,354)
Payment for deposit of leasehold land	**–**	(3,409)
Net cash used in investing activities	**(1,155,345)**	(852,533)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000 (Restated)
Financing activities		
Dividends paid	**(387,500)**	(180,000)
Interest paid	**(114,818)**	(105,770)
New borrowings other than trust receipt loans raised	**2,193,033**	1,573,182
Repayment of borrowings other than trust receipt loans	**(2,138,042)**	(1,147,512)
Increase (decrease) in trust receipt loans, net	**8,172**	(369)
Issue of ordinary shares	**1,208,830**	–
Expenses relating to issue of ordinary shares	**(17,655)**	–
Net cash from financing activities	**752,020**	139,531
Net increase in cash and cash equivalents	**264,883**	28,818
Effect of foreign exchange rate changes	**6,683**	1,159
Cash and cash equivalents at beginning of the year	**192,489**	162,512
Cash and cash equivalents at end of the year	**464,055**	192,489
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**464,055**	192,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35.

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

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

In the current year, the Group has applied, the following Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of these new and revised HKFRSs in the current year has had no material effect on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

HKAS 27 (Revised 2008) and HKFRS 3 (Revised 2008)

The Group applies HKFRS 3 (Revised 2008) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there were no significant transactions during the year to which the changes under HKFRS 3 (Revised 2008) and HKAS 27 (Revised 2008) are applicable, the application of HKFRS 3 (Revised 2008), HKAS 27 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised 2008), HKAS 27 (Revised 2008) and the consequential amendments to the other HKFRSs are applicable.

Improvements to HKFRSs issued in 2009 relating to HKAS 17

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and present them as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provision set out in the amendments to HKAS 17, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases. Leasehold land which qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant and equipment retrospectively.

This resulted in a reclassification of prepaid lease payments as property, plant and equipment measured using the cost model. The adoption of the amendments to HKAS 17 has no impact on the results and earnings per share for the current or prior accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK – Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year. HK – Int 5 requires retrospective application.

In order to comply with the requirements set out in HK – Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK – Int 5, term loans with a repayment on demand clause are classified as current liabilities. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$580,651,000 have been classified as current liabilities. The application of HK – Int 5 has had no impact on the reported profit or loss or earnings per share for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 6 for details).

The effect of adoption of amendments to HKAS 17 and Hong Kong Interpretation 5 on the financial position of the Group are as follows:

	As at 31.12.2009 (originally stated) HK$'000	Adjustments HK$'000	As at 31.12.2009 (Restated) HK$'000
Property, plant and equipment	3,988,044	21,724	4,009,768
Prepaid lease payments – non-current	127,833	(21,146)	106,687
Prepaid lease payments – current	3,060	(578)	2,482
Borrowings – non-current	857,919	(857,919)	–
Borrowings – current	1,347,365	857,919	2,205,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause *(Continued)*

	As at 1.1.2009 (originally stated) HK$'000	Adjustments HK$'000	As at 1.1.2009 (Restated) HK$'000
Property, plant and equipment	3,466,393	22,588	3,488,981
Prepaid lease payments – non-current	131,921	(22,010)	109,911
Prepaid lease payments – current	3,073	(578)	2,495
Borrowings – non-current	424,692	(424,692)	–
Borrowings – current	1,350,850	424,692	1,775,542

The adoption of the other new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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 issued in 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 "Financial Instruments" (issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 (revised in November 2010) adds requirement for financial liabilities that are designated at fair value through profit or loss and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause *(Continued)*

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of HKFRS 9 will affect the classification and measurement of the Group's available-for-sale investment and may affect the classification and measurement of other financial assets.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will not have material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies adopted are as follows:

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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

Goodwill

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

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

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

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

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 sale 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. 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 recognised so as 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:

Leasehold land and 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%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or other own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position.

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.

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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for 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 measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, 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.

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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of which are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading and classified as a financial asset at FVTPL if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables 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 FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. 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 are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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.

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; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bill 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, or 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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.

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.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 the end of the reporting period. 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on 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. 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the foreign exchange reserve).

Retirement benefit costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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, the management estimates the useful lives of various categories of property, plant and equipment according to experience of 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 are less than the original estimates due to changes in the commercial and technological environment, such difference will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. As at 31 December 2010, the carrying amount of property, plant and equipment is HK$4,651,121,000 (31.12.2009: HK$4,009,768,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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 estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables is different from the original estimate, such difference will impact the 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 2010, the carrying amount of trade and bills receivables are HK$2,262,525,000 (31.12.2009: HK$1,668,783,000), net of allowance for doubtful debts of HK$24,981,000 (31.12.2009: HK$22,214,000).

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

The Group makes allowance for the write-down of inventories based on assessments of the net realisable values of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the cost of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. As at 31 December 2010, the carrying amount of inventories is HK$1,248,199,000 (31.12.2009: HK$884,723,000).

5. 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 net debt, which includes the borrowings disclosed in note 26, net of bank balances, and equity attributable to owners 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 takes 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 end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31.12.2010 HK$'000	31.12.2009 HK$'000	1.1.2009 HK$'000
Financial assets			
Loans and receivables (including trade and bills receivables, pledged bank deposits and bank balances and cash)	**3,100,056**	2,149,917	1,542,711
Available-for-sale investment	**–**	–	–
Derivative financial instruments	**2,268**	–	3,240
Financial liabilities			
Amortised cost	**4,159,806**	4,018,308	3,246,395

Financial risk management objectives and policies

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 in 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), credit risk and liquidity risk. The directors review policies for managing each of these risks and they are summarised below.

Market risk

Foreign currency risk

The Group has trade receivables, pledged bank deposits and bank balances denominated in United States dollars ("USD") and other payables and accruals, and trust receipt loans 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 and using foreign exchange forward contracts to eliminate the currency exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Foreign currency risk *(Continued)*

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 the end of the reporting period are as follows:

	31.12.2010 **HK$'000**	31.12.2009 HK$'000
USD	**356,357**	237,055
Euro	**(10,492)**	–

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB, the functional currency of the respective group entities operating in the PRC, against USD 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 end of the reporting period for 5% change in foreign currency rates. A (negative) positive number below indicates a (decrease) increase in profit for the year where RMB strengthens 5% against USD and Euro. For a 5% weakening of RMB against USD and Euro, there would be an equal but opposite impact on the profit for the year.

	2010 **HK$'000**	2009 HK$'000
USD		
Profit for the year	**(15,487)**	(10,075)
Euro		
Profit for the year	**525**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risk

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings 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. The directors of the Company consider the Group's exposure to cash flow interest rate risk on bank deposits is not significant as most deposits bear variable interest rates and they are not sensitive to fluctuation in interest rate.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the borrowings at the end of the reporting period. The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates had been increased/decreased by 50 (2009: 200) basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$3,622,000 (2009: HK$24,862,000).

The management adjusted the sensitivity rate from 200 basis points to 50 basis points for assessing interest rate risk after considering the impact of the less volatile financial market condition in 2010.

Other price risk

During the year ended 31 December 2010, the Group had entered into several foreign currency forward contracts with a bank to reduce its exposure to currency fluctuation risk of payments from trade receivables which were denominated in USD. The derivatives were not accounted for under hedge accounting. The Group was required to estimate the fair value of the foreign currency forward contracts at the end of the reporting period, which therefore exposed the Group to other price risk.

The Group had not entered into any foreign currency forward contracts for the year ended 31 December 2009.

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 end of the reporting period. If RMB strengthen 5% against USD while all other input variables of the valuation models are held constant, the Group's profit for the year ended 31 December 2010 would increase by HK$11,915,000. If RMB weaken 5% against USD, the Group's profit for the year would have decreased by HK$12,586,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk

As at 31 December 2010, 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 statement of financial position.

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 the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited 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 at the end of the reporting period.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting 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. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available unutilised banking facilities of HK$1,870,073,000 (2009: HK$911,209,000).

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 (including interest payments computed using contractual rates or, if floating, based on the relevant market rates current at the reporting date) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	On demand	0-60 days	61-90 days	91-180 days	181-365 days	Total undiscounted cash flows	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2010							
Non-interest bearing							
Trade, bills and other payables	**–**	**842,852**	**693,343**	**269,328**	**4,209**	**1,809,732**	**1,809,732**
Interest bearing instruments							
Borrowings							
– fixed rate	**512,585**	**–**	**–**	**–**	**–**	**512,585**	**512,585**
– variable rate	**959,069**	**–**	**–**	**–**	**–**	**959,069**	**959,069**
Other bank loan							
– fixed rate	**–**	**149,758**	**109,211**	**645,349**	**–**	**904,318**	**878,420**
	1,471,654	**992,610**	**802,554**	**914,677**	**4,209**	**4,185,704**	**4,159,806**
As at 31 December 2009							
Non-interest bearing							
Trade, bills and other payables	–	812,661	924,031	76,332	–	1,813,024	1,813,024
Interest bearing instruments							
Borrowings							
– fixed rate	138,616	–	–	–	–	138,616	138,616
– variable rate	1,368,232	–	–	–	–	1,368,232	1,368,232
Other bank loan							
– fixed rate	–	150,083	158,988	396,808	–	705,879	698,436
	1,506,848	962,744	1,083,019	473,140	–	4,025,751	4,018,308

The table below summarises the maturity analysis of term loans with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates and variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments							
	On demand	0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2010	**–**	**288,326**	**90,245**	**185,026**	**387,110**	**212,592**	**390,269**	**1,553,568**
As at 31 December 2009	–	201,443	40,536	177,513	288,385	675,506	219,532	1,602,915

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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.

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

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

The level within which the financial asset is determined based on the lowest level of significant input to the fair value measurement.

The following table presents the Group's assets that are measured at fair value at the end of the reporting period:

	Level 2	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
Derivative financial instruments	**2,268**	–

There have been no transfers between level 1 and 2 during the year.

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.

7. 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.

	2010	2009
	HK$'000	HK$'000
Sales of pharmaceutical products	**6,502,817**	4,643,177

Segment information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

(a) Segment turnover and results:

Year ended 31 December 2010

Income statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	1,710,429	2,875,592	1,916,796	6,502,817	–	6,502,817
Inter-segment sales	1,281,911	241,968	–	1,523,879	(1,523,879)	–
	2,992,340	3,117,560	1,916,796	8,026,696	(1,523,879)	6,502,817
RESULT						
Segment profit	575,280	276,440	436,139			1,287,859
Unrealised profit elimination	(4,790)	(2,807)	10,809			3,212
	570,490	273,633	446,948			1,291,071
Unallocated other income						9,532
Unallocated corporate expenses						(61,954)
Other gains and losses						16,449
Finance costs						(91,818)
Profit before taxation						1,163,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment turnover and results: *(Continued)*

Year ended 31 December 2009

Income statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	808,086	2,248,934	1,586,157	4,643,177	–	4,643,177
Inter-segment sales	1,210,948	189,549	–	1,400,497	(1,400,497)	–
	2,019,034	2,438,483	1,586,157	6,043,674	(1,400,497)	4,643,177
RESULT						
Segment profit	189,982	305,402	424,645			920,029
Unrealised profit elimination	(53,696)	(984)	(14,750)			(69,430)
	136,286	304,418	409,895			850,599
Unallocated other income						5,641
Unallocated corporate expenses						(74,106)
Other gains and losses						(274)
Finance costs						(88,490)
Profit before taxation						693,370

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

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

Intersegment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, sundry income, fair value changes on derivative financial instruments, corporate expenses and staff costs, and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Segment assets and liabilities

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Reportable segment assets			
Intermediate products	**4,802,246**	3,630,580	3,320,394
Bulk medicine	**2,775,106**	2,430,137	1,583,824
Finished products	**1,146,936**	899,565	805,032
Total segment assets	**8,724,288**	6,960,282	5,709,250
Reportable segment liabilities			
Intermediate products	**958,160**	961,567	785,826
Bulk medicine	**927,533**	796,018	522,336
Finished products	**82,746**	166,519	201,766
Total segment liabilities	**1,968,439**	1,924,104	1,509,928

Measurement

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

Reportable segment liabilities exclude tax payables, borrowings and deferred tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Reconciliation of reportable segment assets and liabilities

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

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Assets			
Reportable segment assets	**8,724,288**	6,960,282	5,709,250
Unallocated assets:			
Deferred tax asset	**35,659**	18,580	6,249
Derivative financial instruments	**2,268**	–	3,240
Pledged bank deposits	**381,624**	288,645	286,045
Bank balances and cash	**464,055**	192,489	165,474
Total assets per consolidated statement of financial position	**9,607,894**	7,459,996	6,170,258
Liabilities			
Reportable segment liabilities	**1,968,439**	1,924,104	1,509,928
Unallocated liabilities:			
Tax payables	**83,704**	68,697	32,836
Borrowings	**2,350,074**	2,205,284	1,775,542
Deferred tax liabilities	**95,735**	68,884	35,457
Total liabilities per consolidated statement of financial position	**4,497,952**	4,266,969	3,353,763

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(d) Other segment information

For the year ended 31 December 2010

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

For the year ended 31 December 2009

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Amortisation of prepaid lease payments	1,656	553	348	2,557
Amortisation of intangible assets	–	–	1,859	1,859
Depreciation of property, plant and equipment	264,900	37,750	31,452	334,102
Allowance for inventories	–	940	1,489	2,429
Gain on disposal of property, plant and equipment	–	–	576	576
Additions of intangible assets during the year	–	–	3,354	3,354
Additions to property, plant and equipment	647,190	44,729	147,319	839,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(e) Geographical information

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

	Turnover from external customers		**Non-current assets**	
	2010	2009	**31.12.2010**	31.12.2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
				(Restated)
PRC (country of domicile)	**4,544,686**	3,626,392	**4,776,369**	4,078,483
Europe	**437,571**	261,507	**–**	–
India	**936,256**	383,999	**–**	–
Hong Kong	**30,873**	43,217	**129,869**	142,809
Middle East	**91,922**	30,910	**–**	–
South America	**90,385**	56,589	**–**	–
Other Asian regions	**273,921**	189,312	**–**	–
Other regions	**97,203**	51,251	**–**	–
	6,502,817	4,643,177	**4,906,238**	4,221,292

Notes:

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

2) Non-current assets excludes deferred tax assets.

(f) Information about major customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Bank interest income	**5,763**	3,588
Sales of raw materials	**15,232**	9,565
Subsidy income (note 34)	**17,720**	7,367
Sundry income	**1,501**	2,053
	40,216	22,573

9. OTHER GAINS AND LOSSES

	2010 HK$'000	2009 HK$'000
Net foreign exchange gain (loss)	**14,179**	(850)
Net gain on disposal of property, plant and equipment	**2**	576
Fair value change on derivative financial instruments	**2,268**	–
	16,449	(274)

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on borrowings wholly repayable within five years	**114,818**	105,770
Less: amounts capitalised in property, plant and equipment	**(23,000)**	(17,280)
	91,818	88,490

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.31% (2009: 6.88%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 2010

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Fang Yu Ping HK$'000	Zou Xian Hong HK$'000	Zhu Su Yan HK$'000	Choy Siu Chit HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	960	240	240	240	1,680
Other emoluments:												
Salaries and other benefits	4,800	4,309	3,680	1,800	516	516	516	840	–	–	–	16,977
Retirement benefit scheme contributions	–	31	12	12	16	5	40	24	–	–	–	140
	4,800	4,340	3,692	1,812	532	521	556	864	–	–	–	17,117
Total emoluments	4,800	4,340	3,692	1,812	532	521	556	1,824	240	240	240	18,797

Year ended 31 December 2009

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Tsoi Hoi Shan HK$'000	Choy Siu Chit HK$'000	Heng Kwoon Seng HK$'000	Chong Peng Oon HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	960	30	135	180	180	1,485
Other emoluments:										
Salaries and other benefits	1,800	1,322	1,200	908	–	–	–	–	–	5,230
Retirement benefit scheme contributions	–	32	12	13	12	–	–	–	–	69
	1,800	1,354	1,212	921	12	–	–	–	–	5,299
Total emoluments	1,800	1,354	1,212	921	972	30	135	180	180	6,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(b) Employees

For the year ended 31 December 2010, all the five highest paid individuals of the Group are directors of the Company, details of which are set out above.

For the year ended 31 December 2009, the five highest paid individuals of the Group included two directors of the Company, details of which were set out above, the emoluments of the remaining three individuals for the year are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	–	3,786
Retirement benefits scheme contributions	–	54
	–	3,840

Their emoluments were within the following bands:

	2010 No. of employees	2009 No. of employees
HK$1,000,001 to HK$1,500,000	–	3

No emolument was paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2010 and 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. TAXATION

	2010 HK$'000	2009 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**10,953**	19,040
PRC enterprise income tax	**159,057**	98,628
PRC withholding tax	**11,960**	–
Overprovision in prior years		
Hong Kong	**(606)**	(526)
PRC	**(2,734)**	(1,638)
Change of applicable tax rate of a subsidiary (note)	**–**	15,327
	178,630	130,831
Deferred tax (note 27)	**10,493**	21,096
	189,123	151,927

Note: The Company's subsidiary, 珠海市萬邦藥業有限公司("萬邦藥業"), had previously applied the concessionary tax rate of 18% according to the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Shui Fa [2007] No. 39. 萬邦藥業 received a tax notification in April 2009 from the State of Administration of Taxation for withdrawing 萬邦藥業 from applying the concessionary tax rate and required to apply the standard rate of 25% with effect from 1 January 2008. The tax expense undercharged for prior year of HK$15,327,000 was charged to profit or loss in 2009.

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

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

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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%.

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$50,631,000 (2009: HK$34,632,000) on the undistributed earnings has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2010.

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

	2010 **HK$'000**	2009 HK$'000
Profit before taxation	**1,163,280**	693,370
Tax at PRC Enterprise Income Tax rate of 25% (2009: 25%)	**290,820**	173,343
Tax effect of expenses not deductible for tax purpose	**1,813**	3,830
Tax effect of income not taxable for tax purpose	**(3,781)**	(688)
Overprovision in prior years	**(3,340)**	(2,164)
Change of applicable tax rate of a subsidiary	**–**	15,327
Tax effect of tax losses not recognised	**6,024**	5,777
Utilisation of tax losses previously not recognised	**–**	(2,462)
Tax effect of deductible temporary difference not recognised	**–**	20,363
Recognition of deductible temporary difference previously not recognised	**(23,056)**	–
PRC withholding tax	**50,631**	34,632
Effect of tax concessionary rates granted to the PRC subsidiaries	**(79,216)**	(49,587)
Effect of tax exemptions granted to the PRC subsidiaries	**(56,944)**	(37,687)
Effect of different tax rates of subsidiaries	**(4,995)**	(9,185)
Others	**11,167**	428
Tax charge for the year	**189,123**	151,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000 (Restated)
Profit for the year has been arrived at after charging (crediting):		
(Reversal of) provision of allowances for inventories	(295)	2,429
Provision of allowance for doubtful debts, net	1,583	1,264
Auditor's remuneration		
– Current year	3,450	3,300
– Underprovision in prior year	–	300
Amortisation of prepaid lease payments	2,669	2,557
Depreciation and amortisation		
Depreciation of property, plant and equipment	414,110	334,102
Amortisation of intangible assets (included in administrative expenses)	2,347	1,859
	416,457	335,961
Less: amount included in research and development expenditures	(471)	(481)
	415,986	335,480
Operating lease payments in respect of rented premises	1,860	1,381
Staff costs, including directors' emoluments		
Salaries and other benefits costs	552,724	356,461
Retirement benefit costs	41,723	24,637
	594,447	381,098
Less: amount included in research and development expenditures	(4,772)	(3,122)
	589,675	377,976
Loss on production suspension (included in other expenses)	1,510	23,078
Research and development expenditures (included in other expenses)	52,372	13,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. DIVIDEND

	2010	2009
	HK$'000	HK$'000
Final dividend paid for 2009 of HK19 cents (2008: HK15 cents) per share	**237,500**	180,000
Interim dividend paid for 2010 of HK$12 cents (2009: nil)	**150,000**	–
	387,500	180,000

A final dividend of HK18 cents (2009: HK19 cents) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming general meeting.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to the owners of the Company and the weighted average number of 1,246,144,000 (2009: 1,200,000,000) shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and 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 2009 (restated)	1,128,918	2,282,506	77,715	44,330	1,080,044	4,613,513
Exchange adjustments	5,126	11,276	341	200	3,946	20,889
Additions	28,551	110,121	3,365	5,628	691,573	839,238
Disposals	–	(3,130)	(279)	(595)	–	(4,004)
Reclassification	443,496	879,405	–	123	(1,323,024)	–
At 31 December 2009 (restated)	1,606,091	3,280,178	81,142	49,686	452,539	5,469,636
Exchange adjustments	69,766	143,644	3,356	2,137	21,237	240,140
Additions	72,755	116,056	5,438	10,607	684,850	889,706
Disposals	(5,306)	(18,628)	(5,470)	(4,225)	–	(33,629)
Reclassification	268,922	334,208	5,305	88	(608,523)	–
At 31 December 2010	2,012,228	3,855,458	89,771	58,293	550,103	6,565,853
DEPRECIATION						
At 1 January 2009 (restated)	162,834	878,228	55,272	28,198	–	1,124,532
Exchange adjustments	683	3,995	243	127	–	5,048
Charge for the year	47,929	274,767	6,961	4,445	–	334,102
Eliminated on disposals	–	(3,056)	(223)	(535)	–	(3,814)
At 31 December 2009 (restated)	211,446	1,153,934	62,253	32,235	–	1,459,868
Exchange adjustments	9,287	52,826	2,561	1,392	–	66,066
Charge for the year	68,748	328,164	9,439	7,759	–	414,110
Eliminated on disposals	(2,064)	(15,924)	(4,335)	(2,989)	–	(25,312)
At 31 December 2010	287,417	1,519,000	69,918	38,397	–	1,914,732
CARRYING AMOUNTS						
At 31 December 2010	1,724,811	2,336,458	19,853	19,896	550,103	4,651,121
At 31 December 2009	1,394,645	2,126,244	18,889	17,451	452,539	4,009,768
At 1 January 2009	966,084	1,404,278	22,443	16,132	1,080,044	3,488,981

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

	31.12.2010	31.12.2009
	HK$'000	HK$'000
		(Restated)
Leasehold land in Hong Kong:		
Medium-term lease	**116,112**	120,745
Leasehold land in the PRC:		
Medium-term lease	**1,608,699**	1,273,900
	1,724,811	1,394,645

At 31 December 2010, the Group is in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of HK$47,143,000 (31.12.2009: HK$89,137,000).

17. PREPAID LEASE PAYMENTS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)
The Group's prepaid lease payments comprise:			
Land use rights in the PRC:			
Medium-term lease	**111,111**	109,169	112,406
Analysed for reporting purposes as:			
Non-current asset	**108,523**	106,687	109,911
Current asset	**2,588**	2,482	2,495
	111,111	109,169	112,406

At 31 December 2009, the Group was in the process of obtaining the land use rights certificate for prepaid lease payments in the PRC with an aggregate amount of HK$22,950,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. GOODWILL

	HK$'000
COST	
At 1 January 2009	3,428
Exchange adjustments	9
At 31 December 2009	3,437
Exchange adjustments	151
At 31 December 2010	3,588

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 the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	31.12.2010 HK$'000	31.12.2009 HK$'000	1.1.2009 HK$'000
Bulk medicine	**915**	877	875
Finished products	**2,673**	2,560	2,553
	3,588	3,437	3,428

Based on the impairment testing of goodwill at the end of the reporting period, the management of the Group considered that there are no impairment of any of its CGUs containing goodwill with indefinite 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 12.13% (31.12.2009: 10.02%). Cash flows beyond the 5-year period have been extrapolated using growth rate of 0% (31.12.2009: 0%). The key assumption is budgeted gross margin based on the past performance and the Group's expectation for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2009	19,546
Exchange adjustments	94
Addition	3,354
At 31 December 2009	22,994
Exchange adjustments	963
At 31 December 2010	23,957
AMORTISATION	
At 1 January 2009	15,611
Exchange adjustments	74
Charge for the year	1,859
At 31 December 2009	17,544
Exchange adjustments	796
Charge for the year	2,347
At 31 December 2010	20,687
CARRYING AMOUNTS	
At 31 December 2010	3,270
At 31 December 2009	5,450
At 1 January 2009	3,935

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.

Included in intangible assets are licenses with cost of HK$15,579,000 (31.12.2009: HK$8,050,000) which are fully amortised at the end of the reporting period and the licenses have expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. AVAILABLE-FOR-SALE INVESTMENT

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Unlisted investment at cost	23,417	23,417	23,417
Less: Impairment loss recognised	(23,417)	(23,417)	(23,417)
	–	–	–

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

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

21. INVENTORIES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Raw materials	388,696	150,273	162,588
Work in progress	417,470	300,671	216,517
Finished goods	442,033	433,779	394,886
	1,248,199	884,723	773,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31.12.2010 HK$'000	31.12.2009 HK$'000	1.1.2009 HK$'000
Trade and bills receivables	**2,287,506**	1,690,997	1,112,043
Less: allowance for doubtful receivables	**(24,981)**	(22,214)	(20,851)
	2,262,525	1,668,783	1,091,192
Deposits and prepayments	**304,738**	183,002	106,998
	2,567,263	1,851,785	1,198,190

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

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

	31.12.2010 HK$'000	31.12.2009 HK$'000
Trade receivables		
0 to 30 days	**638,200**	420,350
31 to 60 days	**345,011**	261,758
61 to 90 days	**69,956**	17,054
91 to 120 days	**9,113**	439
121 to 180 days	**7**	1,219
Over 180 days	**1,581**	470
	1,063,868	701,290
Bills receivables		
0 to 30 days	**119,024**	101,866
31 to 60 days	**208,601**	114,198
61 to 90 days	**179,965**	145,990
91 to 120 days	**250,037**	266,189
121 to 180 days	**440,427**	335,154
Over 180 days	**603**	4,096
	1,198,657	967,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

98% (31.12.2009: 98%) of the trade and bills receivables that are neither past due nor impaired have either been subsequently settled or the related debtors maintain an active trade business relationship with the Group.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$26,760,000 (31.12.2009: HK$12,361,000) which are past due at the end of the reporting period 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

	31.12.2010 HK$'000	31.12.2009 HK$'000
61-90 days	**15,456**	6,137
91-120 days	**9,113**	439
121-180 days	**7**	1,219
Over 180 days	**2,184**	4,566
	26,760	12,361

In determining the recoverability of 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 end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. 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.

Movement in the allowance for doubtful debts

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	**22,214**	20,851
Exchange adjustments	**1,184**	99
Impairment losses recognised on receivables	**4,675**	3,580
Impairment losses reversed	**(3,092)**	(2,316)
Balance at end of the year	**24,981**	22,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Movement in the allowance for doubtful debts *(Continued)*

At 31 December 2010, gross trade receivables balance totalling HK$24,981,000 (31.12.2009: HK$22,214,000) were individually determined to be impaired, which related to customers that were in financial difficulties. The management assessed that the full amount of the trade receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

At 31 December 2010, the Group had HK$878,420,000 (31.12.2009: HK$698,436,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$22,520,000 (31.12.2009: HK$31,090,000) bills receivables were issued by the Group's debtors, and the remaining were issued by certain subsidiaries of the Company. Accordingly, the Group has recognised the cash received on such discount as a secured borrowing (see note 26). In addition, as at 31 December 2010, HK$529,865,000 (31.12.2009: HK$812,308,000) of bills receivables had been endorsed to the Group's creditor (see note 25).

Included in the Group's trade and bills receivables are trade receivables with a carrying amount of HK$338,672,000 (31.12.2009: HK$223,820,000) which are denominated in United States dollars, being a foreign currency of the respective group entities.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2010 **HK$'000**	31.12.2009 HK$'000	1.1.2009 HK$'000
Foreign currency forward contracts	**2,268**	–	3,240

During the year, the Group had entered into several USD foreign currency forward contracts with a bank to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. This derivatives were not accounted for under hedge accounting. At the end of the reporting period, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of USD33,000,000 (equivalent to approximately HK$257,400,000) (31.12.2009: nil). The contracts were subject to net settlement at maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

31 December 2010

Notional amount	**Maturity date**	**Exchange rate**
Sell USD6,000,000	15 February 2011	RMB6.72/USD1
Sell USD6,000,000	15 March 2011	RMB6.71/USD1
Sell USD6,000,000	15 April 2011	RMB6.70/USD1
Sell USD3,000,000	4 May 2011	RMB6.59/USD1
Sell USD6,000,000	3 June 2011	RMB6.58/USD1
Sell USD6,000,000	4 July 2011	RMB6.57/USD1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged bank deposits

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Pledged bank deposits denominated in:			
RMB	**370,387**	283,068	237,969
Hong Kong dollars	**5,567**	5,566	48,065
USD	**5,670**	11	11
	381,624	288,645	286,045

RMB 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 security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see note 32).

The range of effective interest rates of the pledged deposits at 31 December 2010 is 1.53% to 2.33% (31.12.2009: 1.71% to 2.25%) per annum.

Bank balances and cash

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Bank balances and cash denominated in:			
RMB	**212,475**	159,530	153,569
Hong Kong dollars	**239,565**	19,735	8,389
USD	**12,015**	13,224	3,516
	464,055	192,489	165,474

RMB 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Bank balances and cash *(Continued)*

The range of effective interest rates of the bank balances at 31 December 2010 is 0.001% to 1% (31.12.2009: 0.001% to 1%) per annum.

Included in the Group's pledged bank deposits and bank balances are pledged bank deposits and bank balances with carry amounts of HK$5,760,000 and HK$12,015,000 (31.12.2009: HK$11,000 and HK$13,224,000) respectively which are denominated in United States dollars, being a foreign currency of the respective group entities.

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	31.12.2010 **HK$'000**	31.12.2009 HK$'000	1.1.2009 HK$'000
Trade payables			
0 to 90 days	**750,506**	824,096	475,476
91 to 180 days	**242,167**	328,748	256,842
Over 180 days	**4,436**	40,101	17,210
	997,109	1,192,945	749,528
Bills payables			
0 to 90 days	**301,815**	41,656	145,466
91 to 180 days	**235,360**	184,305	159,551
	537,175	225,961	305,017
Other payables and accruals	**434,155**	505,198	455,383
	1,968,439	1,924,104	1,509,928

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES *(Continued)*

Included in the trade payables and other payables above are HK$498,642,000 and HK$31,223,000 (31.12.2009: HK$710,089,000 and HK$102,719,000) respectively that has been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period.

Included in the Group's other payables and accruals are other payables with a carrying amount of HK$1,212,000 (31.12.2009: nil) which are denominated in Euro, being a foreign currency of the respective group entities.

26. BORROWINGS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)
Bank loans	**1,462,374**	1,505,740	1,342,134
Discounted bills with recourse (note 22)	**878,420**	698,436	428,969
Trust receipt loans	**9,280**	1,108	1,477
Bank overdraft, secured	**–**	–	2,962
	2,350,074	2,205,284	1,775,542
Analysed as:			
Secured	**1,504,605**	1,599,058	1,315,220
Unsecured	**845,469**	606,226	460,322
	2,350,074	2,205,284	1,775,542

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	HK$'000	HK$'000
Carrying amount repayable within one year	**878,420**	698,436	428,969
Carrying amount of bank loans that contain a repayment on demand clause:			
– Repayable within one year from the end of reporting period	**891,003**	648,929	921,881
– Not repayable within one year from the end of reporting period but shown under current liabilities (Note a)	**580,651**	857,919	424,692
	2,350,074	2,205,284	1,775,542
Less: Amount due within one year shown under current liabilities	**(2,350,074)**	(2,205,284)	(1,775,542)
Amount shown under non-current liabilities	**–**	–	–

Note a: The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

26. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate	**31.12.2010** **HK$'000**	31.12.2009 HK$'000
People's Bank of China lending rate – floating rate	**679,318**	1,045,468
People's Bank of China lending rate – fixed rate	**1,391,005**	837,052
Hong Kong Interbank Offered Rate plus 2% to 2.5%	**9,280**	–
Hong Kong Interbank Offered Rate plus 1% to 2.5%	**270,471**	321,656
Standard bills rate quoted by banks or at a margin over Hong Kong prime rate	**–**	1,108
	2,350,074	2,205,284

At 31 December 2009, certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group.

The range of effective interest rates of the floating rate borrowings at 31 December 2010 is 1.83% to 8.09% (31.12.2009: 3.89% to 5.59%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2010 is 4.86% to 5.56% (31.12.2009: 4.86% to 8.22%) per annum. The range of effective interest rates of the trust receipt loans at 31 December 2010 is 2.27% to 2.77% (31.12.2009: 1.89% to 2.74%) per annum.

Included in the Group's borrowings are trust receipt loans with a carrying amount of HK$9,280,000 (31.12.2009: Nil) which are denominated in Euro, being a foreign currency of the respective group entities.

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27. DEFERRED TAXATION

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

	Accelerated (tax) accounting depreciation HK$'000	Unrealised profit on inventories HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2009	(13,025)	6,249	(22,432)	(29,208)
Credit (charge) to profit or loss for the year	1,205	12,331	(34,632)	(21,096)
At 31 December 2009	(11,820)	18,580	(57,064)	(50,304)
Exchange adjustments	721	–	–	721
Credit (charge) to profit or loss for the year	28,995	(817)	(50,631)	(22,453)
Reallocated to tax liabilities	–	–	11,960	11,960
At 31 December 2010	17,896	17,763	(95,735)	(60,076)

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

	31.12.2010 HK$'000	31.12.2009 HK$'000	1.1.2009 HK$'000
Deferred tax assets	**35,659**	18,580	6,249
Deferred tax liabilities	**(95,735)**	(68,884)	(35,457)
	(60,076)	(50,304)	(29,208)

The Group has unrecognised tax losses of HK$52,857,000 (31.12.2009: HK$28,760,000) at the end of the reporting period. No deferred tax asset has been recognised for such tax losses due to unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely.

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28. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2009 and 31 December 2009	1,200,000,000	12,000
Issue of shares	101,500,000	1,015
At 31 December 2010	1,301,500,000	13,015

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

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.

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29. SHARE OPTION SCHEME *(Continued)*

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 since the Scheme was set up.

30. OPERATING LEASES

The Group as lessee

	31.12.2010	31.12.2009
	HK$'000	HK$'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**1,231**	867
In the second to fifth years inclusive	**830**	41
	2,061	908

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

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

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31. CAPITAL COMMITMENTS

	31.12.2010	31.12.2009
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**333,584**	122,222

32. PLEDGE OF ASSETS

Other than as disclosed in note 22, at the end of the reporting period, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	31.12.2010	31.12.2009
	HK$'000	HK$'000
		(Restated)
Property, plant and equipment	**1,373,311**	1,384,294
Prepaid lease payments	**111,111**	109,169
Bills receivables	**230,576**	58,371
Pledged bank deposits	**381,624**	288,645
	2,096,622	1,840,479

33. 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$674,000 (2009: HK$535,000) are charged to profit or loss.

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$41,049,000 (2009: HK$24,102,000) are charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. GOVERNMENT GRANTS

Incentive subsidies of HK$6,545,000 (2009: HK$4,878,000) 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.

For the year ended 31 December 2010, government subsidies of HK$2,637,000 (2009: HK$6,817,000) were received by the Group to subsidise the acquisition of property, plant and machinery. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current year of HK$1,731,000 (2009: nil). As at 31 December 2010, an amount of HK$7,723,000 (31 December 2009: HK$6,817,000) were included in trade and bills payable and accrued charges.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$15,834,000 (2009: HK$5,170,000) which are provided by the PRC government authorities for the purpose of financing the relevant expenses for new products development. The amounts are recognised as income in accordance with the relevant accounting policy. This policy has resulted in a credit to the current year's profit or loss of HK$9,444,000 (2009: HK$2,489,000).

35. RELATED PARTY DISCLOSURES

Compensation to key management personnel represents directors' remuneration and is disclosed in note 11.

36. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2010 and 2009 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
			2010	2009	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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) 2010	2009	Principal activities and place of operation
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
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	RMB562,496,000	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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) 2010	2009	Principal activities and place of operation
珠海市萬邦制藥有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣西康樂藥品有限責任公司 (note c)	PRC	RMB5,000,000	**100%**	100%	Trading of pharmaceutical products PRC
珠海樂康醫藥有限公司 (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	RMB31,249,864	**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	RMB680,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
內蒙古光大聯豐生物科技有限公司 (note c)	PRC	RMB6,000,000	**100%**	–	Production and sale of organic fertiliser PRC

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

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	2,080,479	2,594,937	3,755,856	4,643,177	**6,502,817**
Profit before taxation	221,778	558,341	532,530	693,370	**1,163,280**
Taxation	(47,940)	(47,878)	(102,361)	(151,927)	**(189,123)**
Profit for the year attributable to owners of the Company	173,838	510,463	430,169	541,443	**974,157**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	3,712,220	4,750,088	6,170,258	7,459,996	**9,607,894**
Total liabilities	(2,400,625)	(2,297,556)	(3,353,763)	(4,266,969)	**(4,497,952)**
	1,311,595	2,452,532	2,816,495	3,193,027	**5,109,942**
Equity attributable to owners of the Company	1,311,595	2,452,532	2,816,495	3,193,027	**5,109,942**