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)

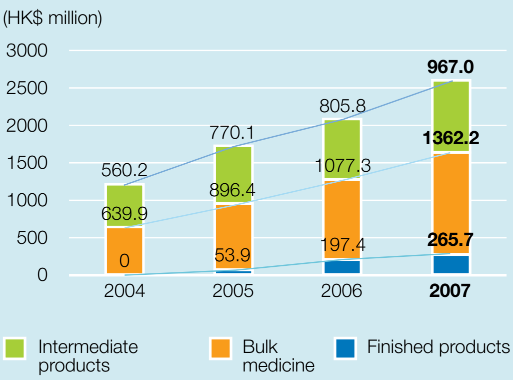
Annual Report

2007

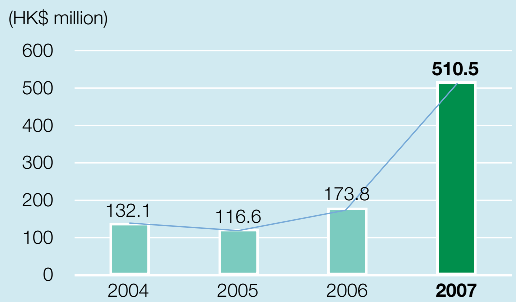
FINANCIAL HIGHLIGHT

(HK$ millions, except where otherwise stated)	**2007**	2006	% change
Turnover	**2,594.9**	2,080.5	24.7%
Profit before taxation	**558.3**	221.8	151.8%
Profit attributable to equity holders of the Company	**510.5**	173.8	193.6%
EBITDA	**824.9**	501.2	64.6%
Earnings per share (HK Cents)	**48.0**	19.3	148.7%
Return on average total equity (%)	**27.1**	15.0	12.1%
Gearing ratio (%)	**29.0**	39.5	-10.5%

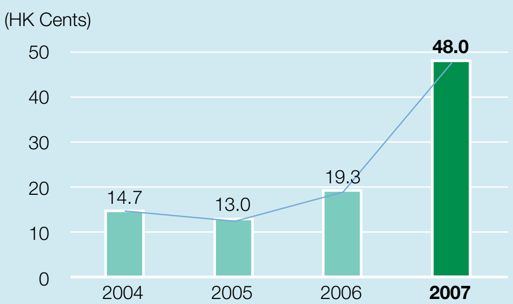
TURNOVER



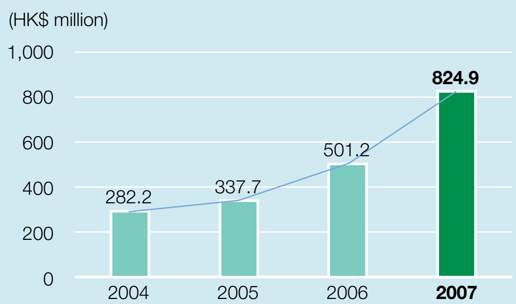
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



EARNINGS PER SHARE



EBITDA



CONTENTS


United Laboratories Inner Mongolia
內蒙聯邦制藥


United Laboratories Chengdu
成都聯邦制藥

United Laboratories Zhuhai
珠海聯邦制藥


United Laboratories Hong Kong
香港聯邦製藥


Kingly Capsule
金億膠囊

United Laboratories Zhuhai (Zhongshan Branch Company)
珠海聯邦制藥中山分公司

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Choy Kam Lok *(Chairman)*
Peng Wei *(General Manager)*
Leung Wing Hon

Non-executive director

Choy Siu Chit

Independent non-executive directors

Heng Kwoo Seng
Huang Bao Guang
Song Ming

COMPANY SECRETARY

Leung Wing Hon *(CPA)*

QUALIFIED ACCOUNTANT

Leung Wing Hon *(CPA)*

AUTHORISED REPRESENTATIVES

Choy Kam Lok
Leung Wing Hon

AUDIT COMMITTEE

Heng Kwoo Seng *(Chairman)*
Huang Bao Guang
Song Ming

REMUNERATION COMMITTEE

Heng Kwoo Seng *(Chairman)*
Huang Bao Guang
Song Ming

COMPLIANCE ADVISER

Piper Jaffray Asia Limited

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

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 Ltd.,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
China Citic Bank Corporation Limited,
Chengdu Qingjiang Road Branch

Hong Kong

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

www.tul.com.cn

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 all shareholders the first annual report for the year ended 31 December 2007 of the Company and its subsidiaries ("United Laboratories" or the "Group") since its listing.

2007 was a meaningful as well as fruitful year to United Laboratories. On 15 June 2007, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited and the Company raised gross proceeds of approximately HK$949 million (including over-allotment portion). More importantly, the listing enabled the Group to access to international capital markets while establishing a strong financial foundation to support the future business development of the Group. It also marked an important milestone on the sustainable business growth of the Group.

At the meeting of the Eleventh People's National Congress of the People's Republic of China which has just been concluded, a working report of the PRC government indicated that the spending of PRC government on medical healthcare in the last 5 year amounted to an aggregate of RMB629.4 billion, which was 1.27 times higher than the previous 5 years. Such spending was mainly utilized to strengthen the public healthcare, medical services and the establishment of medical insurance system. Since 2006, the PRC government has made great effort to reform pharmaceutical retail market resulting to a significant improvement in the operating environment of pharmaceutical enterprises. Under the positive impacts of favourable measures of the PRC in 2007 such as the increased funding by the government on medical insurance and the extension of medical insurance coverage, the capacity of pharmaceutical markets grew while the profitability of pharmaceutical industries rapidly rebounded. The estimated annual total spending on healthcare in 2007 amounted to RMB1,048.8 billion. The total pharmaceutical industrial output amounted to RMB692.8 billion. Moreover, as a result of the advocate of green GDP and the extended stipulations on environmental protection by the PRC government in 2007, many pharmaceutical manufacturing enterprises, in particular for those who engage in fermentation were forced to reduce or suspend their production due to their inability to meet the national sewage disposal standards resulted to the reduction in the supplies of 6-APA, 7-ACA and amoxicillin and the increases in their prices.

In 2007, United Laboratories successfully captured the market opportunities and achieved outstanding results. The Group recorded a turnover of approximately HK$2,600 million, significantly increased by 24.7% as compared to last year. Profit attributable to the shareholders of the Company was approximately HK$510 million, surged approximately 1.9 times as compared to last year. Earnings per share was HK48 cents, surged approximately 1.5 times as compared with last year. The Board recommended the payment of a final dividend of HK17 cents per share for the year ended 31 December 2007.

During the year, the Group has further leveraged the strength of vertically integrated production operation, made use of favourable pricing opportunities of intermediate products and bulk medicine, modified the Group's product mix and optimized the utilization rate of its production capacity. The sales of the Group's three core products namely intermediate products, bulk medicine and finished products registered balance growth.

– **Intermediate products:** While optimizing the utilization rate of production capacity of its production base in Chengdu and enhancing the efficiency of each production plant, the Group has invested approximately RMB600 million during the year to establish production plant in Inner Mongolia, which has a scheduled annual capacity of 5,000 tons. The plant in Inner Mongolia primarily engaged in the bulk medicine upstream product 6-APA, in order to cater for the strong growth of the future PRC market demands to have better and more direct control on product qualities and costs of production, and support the rapid growth in bulk medicine and finished products.

– **Bulk medicine:** The surge in sales was mainly attributable to the increase in the price of the Group's bulk medicine products during the year. Due to the shortage of supply in the bulk medicine market, the Group increased the proportion of intermediate products for its own use, taking advantage of its vertically integrated production operation and further capitalizing its economies of scale.

– **Finished products:** Benefited from the favourable measures launched by the PRC government in the first half of the year and the strong market recognition on its brand name, the Company has actively made use of the opportunities to strengthen its sales and marketing network, expand its sales team, and enlarge its market share in the urban areas and its market coverage in the rural areas of the PRC.

– **Exports:** The Group has actively increased its sales to areas outside the PRC. Upon the granting of the amoxicillin bulk medicine Certificate of Suitability ("COS") from The European Directorate for the Quality of Medicines & HealthCare ("EDQM") of the European Union, United Laboratories has become the only Chinese manufacturer who obtained the amoxicillin bulk medicine COS and the Good Manufacturing Practice ("GMP") certificate issued by GMP of the European Union. This has strengthened the Group's competitiveness in the market outside the PRC.

– **New products:** Through the newly launched finished products and bulk medicine, the Group has diversified its range of products. During the year, the Group has successfully introduced a new anti-hepatitis B drug Adefovir dipivoxil capsules. Favourable responses from the market have been received.

Looking forward, along with the continuous development in the economy in the PRC and the rising level of the income of the citizens, the health consciousness of Chinese citizens will continuously increase. Meanwhile, as the aging population in the PRC is enlarging, coupled with the efforts of the PRC Government in the medical system reform, we strongly believe that the prospect of pharmaceutical business in the PRC has an enormous room for expansion. The Group will grasp this opportunity to continuously strengthen its research and development capabilities, develop new pharmaceutical products which are beneficial to the health of people, and further improve product qualities and customer services. Moreover, the Group will further upgrade the production capacity based on the market demand, so as to achieve greater economies of scale, and to fully realize the comparative advantages from vertical integration. Based on the profound experiences of the management of the Company in pharmaceutical business and our philosophy on high product quality all along, the Group is sure to take this market opportunity to derive satisfactory investment return for shareholders.

I would like to extend my gratitude to our staff for their tireless and continuous effort, devotion and wholehearted support which drive the constant improvement in the results of United Laboratories. I also take this opportunity to thank for the enormous support of the shareholders to the Group, and their affirmation to the Group's future business development plans and strategies. In return for the trusts vested by staff and shareholders, the entire United Laboratories team would continue to make its best endeavour and move forward, search for excellence, achieve remarkable results together, and continue to strive to become the leading and the biggest high quality antibiotic pharmaceutical products manufacturer in the PRC, in order to bring fruitful returns to shareholders.

Choy Kam Lok
Chairman

9 April 2008

CHARITABLE SPONSORSHIPS AND COMMUNITY SERVICES

Apart from investing in its own development, United Laboratories also endeavours to establishing a harmonized community. Since the 1990s, United Laboratories has established a 5-year term United Scholarships to sponsor university students studying in 36 pharmaceutical institutions nationwide. After the conclusion of the first phase of such sponsorships, certain institutions such as Shenyang Medical University (瀋陽藥科大學), Sichuan University Huaxi Clinical Medical Institution (四川大學華西臨床醫學院), Zhongnan University Xiangya Medical School (中南大學湘雅醫學院) and Chongxing Medical University (重慶醫科大學) were granted the sponsorships again. The Group will continue to grant United Scholarships and support the PRC educational fields as it did in the past.

In response to the calls of the PRC government, the Group is actively involved in the major exploitation of western regions in the PRC by setting up manufacturing plants for intermediate products in Chengdu and Inner Mongolia. These moves offer over 2,000 jobs opportunities and drive the development of domestic economic infrastructure in these regions. At the same time, more secured and effective pharmaceutical products are being supplied to these regions.

Close collaboration has been established between the Group and relevant PRC authorities whereby the Group receives high recognition from the heads of SFDA.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

Market Review for 2007

During the year, both the output and the turnover of the PRC pharmaceutical industry maintained a fast growth rate. The profitability of the industry has been improved significantly. The National Development and Reform Commission ("NDRC") of the PRC has been in conformity with its mission to facilitate the synchronization of the society and economy. During the period, NDRC continued to strengthen and refine macro measures and focused on resolving the social issues concerning the productivity and living standard of the community in general. It has fully cooperated with relevant government departments to align with the work progress of social security. NDRC pays special attention to the welfare of social medical insurance for the community in general and is currently improving the system of national medical insurance which principally covers three dimensions namely, medical policies, healthcare system reform and the upgrade of medical scheme for rural areas. On the medical policy front, the PRC government implements nationwide policies including the extension of medical insurance coverage. It has continuously invested ample resources in medical healthcare. National health system reform has been steadily carried out to expedite the establishment of systems of community health services in the cities. Further extension of the coverage and the population of beneficiaries of the new rural cooperative medical scheme are the approaches to be adopted to modify the medical scheme of rural areas.

It is believed that the sustained growth of the PRC economy, its total expenditure on public health and the per capita total expenditure on health as well as the exerted effort for the PRC government to enhance medical policy and measures of environmental protection would be advantageous to the future development of the Group and would bring in new business opportunities.

Financial Performance

For the year ended 31 December 2007, the Group achieved excellent results and recorded a turnover of approximately HK$2,595 million, an increase of 24.7% as compared to last year. The profit attributable to shareholders was approximately HK$510 million, representing a significant growth of 193.6% as compared to last year. The substantial improvement in the Group's results was attributable to the surge in sales and prices of bulk medicine. The Group's overall gross profit margin and net profit margin continued to rise, up by 11.1% and 11.3% respectively. For the year ended 31 December 2007, segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 42.6%, 28.6% and 20.0% respectively as compared with last year. Segment results of intermediate products, bulk medicine and finished products increased by 895.1%, 172.2% and 6.9% respectively.

The Group has successfully established long and stable business relationships with its customers, hospitals and distributors that resulted in the continuous growth in the Group's turnover in the PRC markets. During the year, the proportion of overseas sales also increased to approximately 23.4% of the Group's total turnover, representing an increase of 36.1% as compared with last year. The Group has adopted a highly vertical integrated production operation which in turn maximized the economies of scales and enhanced the Group's profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group achieved a remarkable results for the year ended 31 December 2007. Turnover of the Group reached HK$2,595 million, representing a surge of 24.7% as compared with year 2006. Net profit after taxation was HK$510 million, increased by 193.6% as compared with year 2006. These were the results of the continuing effort and hard work of the management team and all our staff. Year 2007 was a year of rapid growth in the pharmaceutical industry. After the completion of the measures to reform the retail markets of pharmaceutical products by the PRC government in year 2006, the operating environment has been improved. The increased medical expenditure from the PRC government and the extension of the coverage of the medical scheme were the factors that drove the growth in the size of pharmaceutical markets and led to the rapid growth in profitability in year 2007.

The Group's performance improved significantly in year 2007. Below are the contributing factors leading to the significant increase in turnover and profit:–

Increase in the pricing of bulk medicine and intermediate products

As a result of the advocate of green production and the extended stipulations on environmental protection by the PRC government in year 2007, many pharmaceutical manufacturing enterprises, in particular, for those who involve in fermentation were forced to reduce or suspend their production due to their inability to meet the national sewage disposal standards. This caused the decreases in the supply of 6-APA, 7-ACA and amoxicillin and the increases in their prices. The Group has increased its investment in environmental protection facilities since a few years ago. All manufacturing plants are well-equipped and fully complied with the national sewage disposal standards. To counteract the increased environmental protection, the Group has fully leveraged the strength of vertical integration and made use of favourable pricing opportunities of intermediate products and bulk medicine, modified the Group's product mix, maximized production capacity and strengthened the productivity of the manufacturing plants so as to realize economies of scale and to enhance the profitability of the Group.

Export business remains strong, strengthen the development of high-end overseas market

The turnover of overseas exports business in 2007 increased by approximately 36.1% as compared with 2006, representing 23.4% of the Group's turnover. Upon the granting of the amoxicillin bulk medicine COS from the EDQM of the European Union, the Company has successfully opened up its market in Europe, and has become the only Chinese manufacturer who obtained both the amoxicillin bulk medicine COS and the GMP certificate issued by the European Union. This has strengthened the Company's competitiveness in the overseas market.

A boost in sales of finished products through the expansion of sales team

Leveraging the favourable measures implemented by the PRC government in the first half of the year, the Group has aggressively seized the opportunities to extend its market coverage in cities as well as rural areas so as to further expand its market share in the PRC market . The turnover of five individual pricing finished products namely Amoxicillin capsules (250mg & 500mg), Ampicillin capsule (250mg & 500mg) and Amoxicillin granules achieved a 12.0% growth as compared with last year. Moreover, with the launch of certain new products such as Adefovir Dipivoxil Capsules into the market, there was an overall 20.0% increase in the sales turnover of finished products in 2007 as compared with last year.

Growth in gross margin

The Group's gross margin increased continuously in 2007. This was attributable to the rising prices of bulk medicine and intermediate products and the reduction in production costs resulted from the use of vertically integrated operation model, which fully optimized the productivity of the Group's vertical integration model.

Taking into account of all the above factors, the Group achieved an outstanding performance in 2007 and a bright prospect in the future could be envisaged.

Liquidity and Financial Resources

As at 31 December 2007, the Group had bank deposits, cash and bank balances amounted to approximately HK$755 million (2006: HK$316 million).

As at 31 December 2007, the Group had interest-bearing bank borrowings of approximately HK$1,380 million (2006: HK$1,306 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK$90 million were fixed rate loans while the remaining balance of approximately HK$1,290 million was 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 working capital.

As at 31 December 2006, the Group had loan from a director of approximately HK$160 million. The loan from a director was settled in full during the year.

As at 31 December 2007, the Group had pledged the following assets to banks as securities against the banking facilities granted to the Group:

	2007 **HK$'000**	2006 HK$'000
Property, plant and equipment	**557,284**	484,384
Prepaid lease payments	**72,025**	67,973
Trade and bills receivables	**150,754**	162,944
Pledged bank deposits	**354,211**	216,565
	1,134,274	931,866

In addition, bank loans of HK$68,000,000 outstanding as at 31 December 2007 are secured by the debentures over assets of certain subsidiaries of the Group.

As at 31 December 2007, current assets of the Group amounted to approximately HK$2,213 million (2006: HK$1,978 million). The Group's current ratio was approximately 1.27 as at 31 December 2007, as compared with 1.00 as at 31 December 2006. As at 31 December 2007, the Group had total assets of approximately HK$4,750 million (2006: HK$3,712 million) and total liabilities of approximately HK$2,298 million (2006: HK$2,401 million), representing a gearing ratio (calculated as total debts to total assets) of approximately 29.0% as at 31 December 2007, as compared with approximately 39.5% as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in US dollars and Hong Kong dollars and Renminbi. 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.

Contingent Liabilities

As at 31 December 2007 and 31 December 2006, the Group had no material contingent liabilities.

OUTLOOK FOR 2008

Despite the US sub-prime lending crisis which caused the downturn of the global market economy, the Group's management team believes that this has limited impact upon the Group in the coming year. This is due to the fact that the PRC government has been continuously undergoing reforms on PRC medical insurance system which will lead to the growth of the pharmaceutical industry. The outlook of pharmaceutical industry in the PRC continues to be positive and bright. The PRC markets remain to be the core bases for the Group's products. Given the expansion of PRC markets, the management team of the Group is confident that the Group would achieve a better performance in the coming year.

The prospect of intermediate products and bulk medicine market

The management team expects that the supply of intermediate products and bulk medicine would still be tight in the coming year. The growth of 2008 results will be driven by the sales of the intermediate products and bulk medicine. The Group's production plant in Inner Mongolia will be in full production in 2008. The production quantities of the Group's three major core products such as Semi-synthetic penicillin, Cephalosporins and β-Lactamase inhibitors will be greatly enhanced to mitigate the impact of the downward price pressure of these products in the future and to ensure the continuous revenue growth of these products.

As a result of the receipt of amoxicillin COS certification of the bulk medicine by the Group in October last year, it is expected that the exports of bulk medicine and intermediate products will keep on improving and will achieve a steady growth.

The prospect of finished products market

The management will focus on accelerating the exploration of rural market development in order to further enlarge market shares of the Group's finished products in the PRC. PRC government has initiated the establishment of rural healthcare services infrastructure. Significant funding from the PRC government has been contributed by the central finance division in developing the three-tier medical healthcare infrastructure applied to counties, towns and villages. The coverage of the trial-sites of the new rural cooperative medical scheme has been extended to 1,451 counties (cities, regions), representing a nationwide total of 50.7%, while 410 million peasants have participated. The local government has correspondingly increased its funding contribution as to significantly raise the level of subsidies of medical expenses. All these relevant factors lead to the continuous growth in the demand of pharmaceutical products in the rural markets. The Group will grasp the opportunity to develop the rural market and to boost the Group's sales revenue of finished products.

Research and development

The Group has currently undergone research and development of about 52 different types of products, including new medicine and generic medicine. The research and development of some of these products are self-financed while some of them are in collaboration with pharmaceutical corporations, medical institutions, biochemical research institutions and the like. There are approximately 9 different types of new medicine and generic medicine pending the review and approval of the State Food and Drug Administration of the PRC. There are 19 different types of new medicine and generic medicine pending the unified review and approval of the State Drug Administration Centre of the PRC. Moreover, there are 24 different types of qualified new medicine and generic medicine pending the professional review and approval of the State Drug Review Centre of the PRC. The research and development of new products will enhance the business developments in the towns and cities markets in the PRC.

Among the new medicine and generic medicine being developed, 7 of them will be launched in the market in the year 2008.

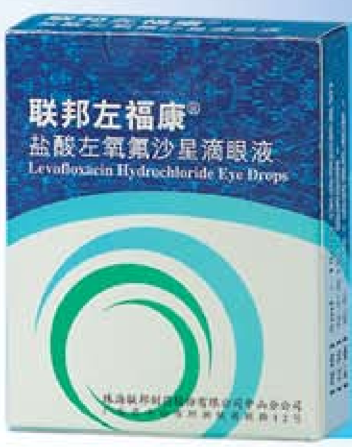
On-going reduction of production costs

The Group has made full use of its vertical integration model to better monitor its production costs. Moreover the Group's production plant in Inner Mongolia will be in full production in 2008. The production capacity will be significantly maximised by then and relevant production cost will continue to decrease. This will strengthen the competitiveness of the Group's products to counteract the risks of downward price pressure and to enable the Group's to sustain its performance growth.

EMPLOYEES

As at 31 December 2007, the Group had approximately 6,000 employees in Hong Kong and Mainland China. 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.

MAIN PRODUCTS



頭孢噻肟鈉
Cefotaxime Sodium Crystalline, Sterile

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Choy Kam Lok (蔡金樂), aged 65, is an executive Director and the Chairman of the Company. Mr. Choy has over 30 years of experience in the pharmaceutical manufacturing business in Hong Kong and the PRC. He was engaged in the trading of pharmaceutical products prior to the Choy Family's acquisition of United Laboratories Hong Kong in the 1990's. Mr. Choy is a committee member of the Guangdong Political Consultative Conference (廣東省政協委員), a member of 7th Committee of the All-China Federation of Returned Overseas Chinese (中國僑聯第七屆委員會會員) and a visiting professor of the Wuhan Tongji Pharmaceutical University (武漢同濟醫科大學). Mr. Choy is also the Deputy Chairman of the board of directors of Shenyang Medical University (瀋陽藥科大學) and a guest professor of its Business Administration School. He was named an honorary citizen of Zhuhai City (珠海市榮譽市民) in 1998 and appointed a council member of the China Overseas Friendship Association (中華海外聯誼會理事) in 2001. Mr. Choy is responsible for the overall business planning and strategic development of the Group.

Peng Wei (彭韙), aged 44, is an executive Director and the general manager of the Company. Ms. Peng graduated from the department of medicine of Xi'an Medical College (西安醫學院), PRC in 1983 and was granted a degree of EMBA from Lingnan College of the Zhongshan University (中山大學嶺南學院) in 2006. She is currently a member of the Zhuhai Municipal People's Congress (珠海市人民代表大會代表). Prior to joining the Group, Ms. Peng had worked in other pharmaceutical manufacturing enterprises in the PRC. She joined the Group in 1995. Ms. Peng has over 20 years' experience in corporate and financial management for pharmaceutical enterprises in the PRC. Ms. Peng received the "Guangdong Province Labour Model" (廣東省勞動模範稱號) award in 2000 and the "Distinguished Individual in Advanced Quality Food and Medical Industry Technology in Guangdong" (廣東省食品醫藥行業科技質量工作先進個人) award in 2005. Ms. Peng is responsible for the overall management as well as overseeing the research and development functions of the Group.

Leung Wing Hon (梁永康), aged 45, is an executive Director, the Chief Financial Officer, Qualified Accountant 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.

Non-executive Director

Choy Siu Chit (蔡紹哲), aged 34, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Independent non-executive Directors

Heng Kwoo Seng (邢詒春), aged 60, was appointed as an independent non-executive Director on 25 May 2007. He is also the chairman of the Company's Audit Committee. Mr. Heng is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Heng is currently an independent non-executive director of the following public listed companies: Lee & Man Paper Manufacturing Limited, Lee & Man Holding Limited, China Fire Safety Enterprise Group Holdings Limited, Soundwill Holdings Limited, SIM Technology Group Limited, Minth Group Limited and SCUD Group Limited. In the past three years, he was an independent non-executive director of the following public listed companies: Winfair Investment Company Limited, The Thai-Asia Fund Limited and The Thai Asset Fund Limited and Tack Fat Group International Limited.

Huang Bao Guang (黃寶光), aged 59, 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 (珠海市醫藥監管局).

Song Ming (宋敏), aged 45, 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.

From left to right
1) Peng Wei
2) Song Ming
3) Heng Kwoo Seng
4) Choy Siu Chit
5) Choy Kam Lok
6) Huang Bao Guang
7) Leung Wing Hon

SENIOR MANAGEMENT

Yu Qing Ming (于清明), aged 42, is the Group's executive president. Mr. Yu graduated from the Postgraduate School of the PRC Central Party College (中共中央黨校研究生院) with a master's degree in economic management in July 2001. Mr. Yu worked in SDA as the secretary of the department head at the bureau level from 1989 to 1997. He joined the Group in 1997 and had been appointed as the deputy general manager of the sales department and manager of corporate management, and assistant to the chairman. Mr. Yu is currently the vice president of the Pharmaceutical Enterprise Management Association (中國醫藥企業管理協會) of the PRC and the vice president of the Chamber of Pharmaceutical Industry of the National Federation of Industry and Commerce of the PRC. Mr. Yu is principally responsible for relevant administrative and management tasks and the Group's sales planning and marketing in the PRC.

Zhu Su Yan (朱蘇燕), aged 42, is the vice president of the Group and the general manager of the Group's sales team in the PRC. Ms. Zhu graduated from Medical School of Southeast University in the PRC (中國南大學醫學院) (formerly known as Nanjing Railway Medical School (南京鐵道醫學院)), PRC with a bachelor of medicine and surgery degree in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University (南京大學) in 2005. Ms. Zhu worked in Nanjing Gulou Hospital (南京鼓樓醫院) as a neurosurgeon from 1988 to 1993, and served as an academic marketing representative with Pfizer in the Jiangsu region for one year in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu, manager of national hospital development department and the deputy general manger of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Zou Xian Hong (鄒鮮紅), aged 42, is the deputy general manager of the Group's sales team. Ms. Zou graduated from the department of medicine of Nanjing Medical College (南京藥學院) in 1984 and obtained her Executive Master of Business Administration from Hunan University (湖南大學) in 2005. She has, since 2005, been a doctorate student majoring in management science and engineering at the Business School of Central Southern University (中南大學醫學院). Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School (湖南省醫藥中等專業學校) from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was responsible for the preparation for the establishment of United Laboratories Chengdu.

Tang Bin Xi (唐彬喜), aged 40, 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.

Wu Shou Ting (吴守廷), aged 40, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine (江西中醫學院) in 1990 and graduated from the Advance Level Research Class, Selected Course of the MBA for Managers in Office (在職經理工商管理碩士精選課程高級研修班) of Zhongshan University (中山大學) in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province (裕豐製藥廠) for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

REPORT OF THE DIRECTORS

The Board of Directors are pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in Note 40 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, income and segment information for the year ended 31 December 2007 is set out in Note 7 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2007 are set out in the Consolidated Income Statement on page 26 of this annual report.

Directors proposed a final dividend of HK17 cents per share for the year ended 31 December 2007.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past four financial years are set out on page 72 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements and reasons of the movements in the share capital of the Company during the year and as at the date of this report are set out in Note 30 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 distributable share premium and reserves of the Company was approximately HK$1,212 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on page 29 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarized in Note 31 to the consolidated financial statements.

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In 2007, the aggregate purchases and sales attributable to the Group's five largest suppliers and five largest customers accounted for less than 30% of the Group's total purchases and sales respectively for the year.

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

USE OF PROCEEDS FROM THE INTERNATIONAL PLACING

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

- approximately HK$90,600,000 for expanding and upgrading the Group's production facilities;
- approximately HK$27,500,000 for market development and expanding the Group's sales and marketing network;
- approximately HK$7,400,000 for strengthening the Group's research and development capabilities by setting up additional research and development facilities;
- approximately HK$209,200,000 for partially re-paying two of the Group's outstanding loan facilities, one of which was due in September 2007 and bearing an interest rate of 5.76% per annum and the other was due in December 2007 and bearing an interest rate of 6.12% per annum; and
- approximately HK$21,000,000 for the general working capital of the Group.

As at 31 December 2007, approximately HK$424,800,000 of the net proceeds has been deposited into banks and qualified financial institutions, and will be applied in accordance with the plans disclosed in the Company's Prospectus.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2007 and up to the date of this report were as follows:

Executive Directors:

Choy Kam Lok *(Chairman)*
Peng Wei *(General Manager)*
Leung Wing Hon

Non-Executive Director

Choy Siu Chit

Independent Non-Executive Directors

Heng Kwoo Seng	(appointed on 25 May 2007)
Huang Bao Guang	(appointed on 25 May 2007)
Song Ming	(appointed on 25 May 2007)

In accordance with article 87 of the Company's articles of association, Mr. Choy Kam Lok and Mr. Leung Wing Hon will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Heng Kwoo Seng, Mr. Huang Bao Guang and Mr. Song Ming will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of directors of the Company are set out on pages 14 and 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Choy Kam Lok, Ms. Peng Wei and Mr. Leung Wing Hon has entered into a service contract dated 25 May 2007 with the Company under which each of them agreed to act as an executive director of the Company for a period of three years unless terminated in accordance with the terms of the service contracts. Under these service contracts, the initial annual salary payable by the Company to Mr. Choy Kam Lok is approximately HK$1,800,000 and to each of Ms. Peng Wei and Mr. Leung Wing Hon is approximately HK$1,200,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. Each of the executive directors will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee. The amount of the annual salary increment and the bonus payable under such service contracts 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 unless terminated in accordance with the terms of the letter of appointment. Pursuant to the above letter of appointment, Ms. Choy is entitled to an annual director's fee of HK$960,000.

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

Save as disclosed above, 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 2007, 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	858,490,000	(1)	Founder of a trust	71.54%
Mr. Choy Kam Lok	Gesell Holdings Limited	855,000,000	(2)	Founder of a trust	71.25%
Mr. Choy Kam Lok	Heren Far East Limited	855,000,000	(3)	Founder of a trust	71.25%

Notes:

(1) Mr. Choy Kam Lok ("Mr. Choy") is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the non-executive director of the Company, Ms. Choy Siu Chit and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell Holdings Limited ("Gesell") and Heren Far East Limited ("Heren") which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 855,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 3,490,000 shares of the Company.

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

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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	Number of shares held	Notes	Capacity	Percentage of Interest
Heren	855,000,000		Beneficial owner	71.25%
Gesell	855,000,000	(1)	Interest in a controlled corporation	71.25%
DBS Trustee H.K. (Jersey) Limited	855,000,000	(2)	Trustee	71.25%
Cheah Capital Management Limited ("CCML")	66,736,000	(3)	Interest in a controlled corporation	5.56%
Cheah Company Limited ("CCL")	66,736,000	(3)	Interest in a controlled corporation	5.56%
Hang Seng Bank Trustee International Limited ("HSBT")	66,736,000	(3)	Trustee	5.56%
Value Partners Group Limited ("VPGL")	66,736,000	(3)	Interest in a controlled corporation	5.56%
Value Partners Limited ("VPL")	66,736,000	(3)	Investment manager	5.56%
To Hau Yin	66,736,000	(3)	Interest in a controlled corporation	5.56%
Cheah Cheng Hye	66,736,000	(3)	Interest in a controlled corporation	5.56%

Notes

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

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

(3) The interests of CCML, CCL, HSBT, VPGL, VPL, To Hau Yin and Cheah Cheng Hye in the 66,736,000 shares of the Company represent one single shareholding and includes deemed interests by way of interests in controlled corporations, trustee's interest and deemed interest by way of being a child under 18 or spouse of a substantial shareholder.

Save as disclosed above, no other person other than the directors of the Company 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 2007.

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 22 to 24 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.

For and on behalf of the Board

Peng Wei
Executive Director and General Manager

Hong Kong, 9 April 2008

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 2007, the Company has adopted the principles prescribed in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with all applicable code provisions.

THE BOARD

The Board comprises three executive directors, one non-executive director and three independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 14 to 16. The Board has established two Board committees including 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			
Choy Kam Lok	3/3	N/A	N/A
Peng Wei	3/3	N/A	N/A
Leung Wing Hon	3/3	N/A	N/A
Non-executive Director			
Choy Siu Chit	3/3	N/A	N/A
Independent Non-executive Directors			
Heng Kwoo Seng	3/3	1/1	1/1
Huang Bao Guang	3/3	1/1	1/1
Song Ming	3/3	1/1	1/1

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

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

Three 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 one non-executive director and 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. The non-executive director and all three independent non-executive directors of the Company are appointed for a fixed term of one year and three years respectively 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 and all directors attended to appoint three independent non-executive directors during the year.

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

REMUNERATION COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

The major duties of the audit committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The audit committee held 1 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 2007.

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 2007, 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 2007, 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 2007 amounted to HK$2,755,000 and HK$770,000 respectively.

For and on behalf of the Board
Choy Kam Lok
Chairman

Hong Kong, 9 April 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in the 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 26 to 71, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 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, 9 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**2,594,937**	2,080,479
Cost of sales		**(1,389,152)**	(1,344,180)
Gross profit		**1,205,785**	736,299
Other income	8	**25,753**	9,918
Selling and distribution costs		**(381,535)**	(284,093)
Administrative expenses		**(173,267)**	(122,956)
Other expenses		**(38,434)**	(37,791)
Finance costs	9	**(79,961)**	(85,485)
Share of results of an associate		**–**	(2,726)
Gain on disposal of an associate		**–**	8,612
Profit before taxation		**558,341**	221,778
Taxation	11	**(47,878)**	(47,940)
Profit for the year attributable to equity holders of the Company	12	**510,463**	173,838
Distributions	13	**277,083**	–
Earnings per share (HK cents)	14	**48.0**	19.3

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non–current assets			
Property, plant and equipment	15	**2,349,792**	1,640,077
Prepaid lease payments	16	**99,495**	80,392
Goodwill	17	**3,226**	3,001
Intangible assets	18	**5,343**	3,663
Deposits for acquisition of property, plant and machinery		**69,145**	7,454
Available–for–sale investment	19	**–**	–
Deferred tax asset	29	**9,649**	–
		2,536,650	1,734,587
Current assets			
Inventories	20	**550,165**	344,115
Trade and bills receivables, deposits and prepayments	21	**905,461**	798,387
Loan receivable	22	**–**	1,779
Prepaid lease payments	16	**2,339**	1,888
Amount due from a director	23	**–**	515,673
Pledged bank deposits	24	**354,211**	216,565
Bank balances and cash	24	**401,262**	99,226
		2,213,438	1,977,633
Current liabilities			
Trade and bills payables and accrued charges	25	**890,912**	894,309
Tax payables		**12,564**	24,100
Borrowings	26	**833,334**	1,047,460
Trust receipt loans	27	**3,350**	701
Bank overdraft, secured	24	**51**	5,956
		1,740,211	1,972,526
Net current assets		**473,227**	5,107
Total assets less current liabilities		**3,009,877**	1,739,694

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non–current liabilities			
Borrowings	26	**543,110**	252,129
Loan from a director	28	**–**	160,100
Deferred tax liabilities	29	**14,235**	15,870
		557,345	428,099
		2,452,532	1,311,595
Capital and reserves			
Share capital	30	**12,000**	390
Reserves		**2,440,532**	1,311,205
Equity attributable to equity holders		**2,452,532**	1,311,595

The consolidated financial statements on pages 26 to 71 were approved and authorised for issue by the Board of Directors on 9 April 2008 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 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	390	–	208,792	190,526	16,548	596,709	1,012,965	112,042	1,125,007
Exchange differences arising on translation of foreign operations and total income recognised directly in equity	–	–	–	–	47,552	–	47,552	–	47,552
Profit for the year	–	–	–	–	–	173,838	173,838	–	173,838
Total recognised income for the year	–	–	–	–	47,552	173,838	221,390	–	221,390
Acquisition of additional interest in subsidiaries	–	–	77,240	–	–	–	77,240	(112,042)	(34,802)
Transferred to capital reserve	–	–	–	1,854	–	(1,854)	–	–	–
At 31 December 2006	390	–	286,032	192,380	64,100	768,693	1,311,595	–	1,311,595
At 1 January 2007	390	–	286,032	192,380	64,100	768,693	1,311,595	–	1,311,595
Exchange differences arising on translation of foreign operations and total income recognised directly in equity	–	–	–	–	127,046	–	127,046	–	127,046
Profit for the year	–	–	–	–	–	510,463	510,463	–	510,463
Total recognised income for the year	–	–	–	–	127,046	510,463	637,509	–	637,509
Exchange of shares upon group reorganisation	(390)	390	–	–	–	–	–	–	–
Capitalisation issue	9,000	(9,000)	–	–	–	–	–	–	–
Issue of new shares	3,000	822,000	–	–	–	–	825,000	–	825,000
Expenses relating to issue of new shares	–	(44,489)	–	–	–	–	(44,489)	–	(44,489)
Transferred to capital reserve	–	–	–	53,587	–	(53,587)	–	–	–
Distributions	–	–	–	–	–	(277,083)	(277,083)	–	(277,083)
At 31 December 2007	**12,000**	**768,901**	**286,032**	**245,967**	**191,146**	**948,486**	**2,452,532**	**–**	**2,452,532**

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Profit before taxation		**558,341**	221,778
Adjustments for:			
Allowance for inventories		**20,301**	2,243
Allowance for doubtful debts		**333**	1,318
Amortisation of intangible assets		**2,749**	2,981
Amortisation of prepaid lease payments		**2,088**	2,701
Depreciation of property, plant and equipment		**181,779**	188,315
Share of results of an associate		**–**	2,726
Gain on disposal of an associate		**–**	(8,612)
Finance costs		**79,961**	85,485
Bank interest income		**(15,317)**	(2,971)
Net loss (gain) on disposal of property, plant and equipment		**272**	(110)
Operating cash flows before movements in working capital		**830,507**	495,854
Increase in inventories		**(200,493)**	(62,308)
Increase in trade and bills receivables, deposits and prepayments		**(47,412)**	(130,732)
(Decrease) increase in trade and bills payables and accrued charges		**(75,077)**	110,495
Cash generated from operations		**507,525**	413,309
Tax paid		**(72,025)**	(54,311)
Interest paid		**(75,152)**	(73,527)
Net cash from operating activities		**360,348**	285,471
Investing activities			
Payments for purchases of property, plant and equipment		**(819,922)**	(146,946)
Proceeds on disposal of property, plant and equipment		**3,979**	212
Government grants received		**5,474**	2,663
Increase in prepaid lease payments		**(16,651)**	(281)
Acquisition of intangible assets		**(4,100)**	–
Increase in pledged bank deposits		**(126,024)**	(82,436)
Repayment of advance to a director		**187,785**	–
Advance to a director		**(114,104)**	(184,529)
Repayment from loan receivable		**782**	1,092
Acquisition of subsidiaries	32	**–**	(13,800)
Acquisition of an additional interest in a subsidiary		**–**	(31,095)
Proceeds on disposal of an associate		**–**	8,612
Repayment from a former minority shareholder of a subsidiary		**–**	5,122
Interest received		**15,317**	2,971
Net cash used in investing activities		**(867,464)**	(438,415)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Financing activities		
New borrowings raised	**1,497,270**	1,052,652
Repayment of borrowings	**(1,494,864)**	(932,889)
Proceeds from issue of new shares	**825,000**	–
Expenses relating to issue of new shares	**(44,489)**	–
Repayment of loan from a director	**–**	(18,159)
Increase (decrease) in trust receipt loans	**2,649**	(5,141)
Net cash from financing activities	**785,566**	96,463
Net increase (decrease) in cash and cash equivalents	**278,450**	(56,481)
Effect of foreign exchange rate changes	**29,491**	2,616
Cash and cash equivalents at beginning of the year	**93,270**	147,135
Cash and cash equivalents at end of the year	**401,211**	93,270
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**401,262**	99,226
Bank overdraft, secured	**(51)**	(5,956)
	401,211	93,270

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 Wong Street, Yuen Long Industrial Estate, Yuen Long, New Territories. The Company is an investment holding company.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out in "Statutory and General Information" section in the prospectus issued by the Company dated 4 June 2007 ("Prospectus"), the Company became the holding company from 25 May 2007. The Group resulting from the Group Reorganisation is regarded as a reorganisation of enterprises under common control. Accordingly, the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement have been prepared on the basis as if the Company had always been the holding company of the Group.

The shares of the Company have been listed on the Stock Exchange with effect from 15 June 2007.

The Company acts as an investment holdings company. The principal activities of its subsidiaries are set out in note 40.

The functional currency of the Company and its subsidiaries in the PRC is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the management consider Hong Kong dollars is more appropriate in evaluating and controlling the performance of its business.

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

In the current year, the Group has applied, for the first time, the following new and revised standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 July 2009

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company. Subsidiaries are entities over which the Group has control. 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, except for those acquired pursuant to the Group Reorganisation, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance date or when they first came under common control, whichever is the shorter, in accordance with Accounting Guidelines "Merger Accounting under Common Control" issued by HKICPA.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

Impairment testing on capitalised goodwill

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

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

Change in interests in subsidiaries that do not result in a change of control

Changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a change of control are accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss is recognised in profit or loss on such changes. The carrying amount of the non-controlling interest is adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, is recognised directly in equity and attributed to equity holders of the parent.

Revenue recognition

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

Sub-contracting service income is recognised when sub-contracting services are provided.

Sales of goods are 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

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

Prepaid lease payments

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

Research and development expenditures

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment testing on intangible assets

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

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 balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and 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

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. 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 Group's financial assets mainly comprise loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of which are set out below.

Loans and receivables

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

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 on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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, including trade and other payables, borrowings and loan from a director, are subsequently measured at amortised cost, using the effective interest method.

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

Equity instruments

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

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 or payable is recognised in profit or loss.

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

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

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

Leases

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

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

Taxation

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

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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.

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

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

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state managed retirement benefit schemes are charged as an expenses as they fall due.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

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 receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the use of judgement and estimates. Where the expectation on the recoverability of trade and bills receivables is different from the original estimate, such difference will impact carrying value of trade receivables and doubtful receivables expenses in the years/periods in which such estimate has changed.

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

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

The Group makes allowance for write-down of inventories based on assessment of the net realisable value of existing inventories. Allowance is made if there is an indication that the net realisable value of inventories are lower than the cost. Calculation of net realisable value requires the use of judgement and estimates.

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 bank borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

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

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

6. FINANCIAL INSTRUMENTS

Financial risk management objectives and polices

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

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

Categories of financial instruments

	2007 **HK$'000**	2006 HK$'000
Financial assets		
Loans and receivables (including trade and bills receivables, loan receivable, amount due from a director, pledged bank deposits and bank balances and cash)	**1,569,135**	1,584,640
Available-for-sale investment	**–**	–
Financial liabilities		
Amortised cost	**2,174,594**	2,283,495

6. FINANCIAL INSTRUMENTS *(Continued)*

Foreign currency risk

Several subsidiaries of the Group have sales transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arises. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

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

	2007 HK$'000	2006 HK$'000
Assets		
United States dollars	**80,735**	29,982

Foreign currency sensitivity analysis

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

	2007 HK$'000	2006 HK$'000
United States dollars		
Profit for the year	**(3,631)**	(1,347)

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Group's cash flow interest rate risk relates primarily to the Group's floating rate borrowings (see note 26 for details of these borrowings). The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings at the balance sheet date which carry interest at floating rates. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personal and represents management's assessment of the reasonably possible change in interest rates.

At the balance sheet dates, if interest rates had been increased by 200 basis points and all other variables were held constant, the Group's profit for the year would decrease by approximately HK$22,350,000 for the years ended 31 December 2007 (2006: HK$15,005,000). If interest rates had been decreased by 200 basis points, there would be equal but opposite impact on the profit for the year.

6. FINANCIAL INSTRUMENTS *(Continued)*

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheets.

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

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

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

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

Other than concentration of credit risk on bank deposits, which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk on trade and bills receivable, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables as at 31 December 2007.

Liquidity risk

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 compliance with loan covenants.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	0-60 days HK$'000	61-90 days HK$'000	91-180 days HK$'000	181-365 days HK$'000	1-2 years HK$'000	2-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2007									
Non-interest bearing									
Trade and bills payable	386,439	238,909	151,547	17,854	–	–	–	794,749	794,749
Interest bearing instruments									
Borrowings, trust receipts loans and bank overdrafts	497,098	111,226	118,861	165,569	406,664	84,143	106,944	1,490,505	1,379,845
	883,537	350,135	270,408	183,423	406,664	84,143	106,944	2,285,254	2,174,594
As at 31 December 2006									
Non-interest bearing									
Trade and bills payable	273,628	247,178	291,541	4,802	–	–	–	817,149	817,149
Interest bearing instruments									
Borrowings, trust receipts loans and bank overdrafts	670,862	182,872	31,330	378,026	255,855	12,198	–	1,531,143	1,466,346
	944,490	430,050	322,871	382,828	255,855	12,198	–	2,348,292	2,283,495

Fair value

The fair value of financial assets and financial liabilities carried in the consolidated balance sheet at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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, and sub-contracting service income for sub-contracting services rendered by the Group to outside customers.

	2007 HK$'000	2006 HK$'000
Sales of goods	**2,594,937**	2,066,276
Sub-contracting service income	**–**	14,203
	2,594,937	2,080,479

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments

The Group is currently organised into three revenue streams – (i) sale of intermediate products (the substance for the production of bulk medicine); (ii) sale of bulk medicine (particular substances used for the provision of pharmacological action in the production of pharmaceutical products, and for the production of finished products; and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2007

Income Statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Elimination HK$'000	Combined HK$'000
TURNOVER					
External sales	265,677	1,362,262	966,998	–	2,594,937
Inter-segment sales	885,377	147,570	–	(1,032,947)	–
	1,151,054	1,509,832	966,998	(1,032,947)	2,594,937
RESULT					
Segment result	253,053	171,645	235,018		659,716
Unallocated other income					16,133
Unallocated corporate expenses					(37,547)
Finance costs					(79,961)
Profit before taxation					558,341
Taxation					(47,878)
Profit for the year					510,463

Balance sheet

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

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Other information

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Combined HK$'000
Capital expenditure	**718,745**	**28,470**	**18,083**	**765,298**
Depreciation and amortisation	**116,032**	**27,832**	**42,752**	**186,616**
Allowances for inventories	**13,110**	**7,054**	**137**	**20,301**
Loss on disposal of property, plant and equipment	**–**	**228**	**44**	**272**

For the year ended 31 December 2006

Income Statement

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Elimination HK$'000	Combined HK$'000
TURNOVER					
External sales	197,373	1,077,294	805,812	–	2,080,479
Inter-segment sales	609,780	97,180	–	(706,960)	–
	807,153	1,174,474	805,812	(706,960)	2,080,479
RESULT					
Segment result	25,430	63,049	219,824		308,303
Unallocated other income					10,585
Unallocated corporate expenses					(17,511)
Finance costs					(85,485)
Share of results of an associate	(2,726)				(2,726)
Gain on disposal of an associate	8,612				8,612
Profit before taxation					221,778
Taxation					(47,940)
Profit for the year					173,838

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Combined HK$'000
ASSETS				
Segment assets	1,329,790	972,605	576,582	2,878,977
Unallocated corporate assets				833,243
Consolidated total assets				3,712,220
LIABILITIES				
Segment liabilities	366,783	446,584	80,942	894,309
Unallocated corporate liabilities				1,506,316
Consolidated total liabilities				2,400,625

Other information

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Combined HK$'000
Capital expenditure	57,297	14,404	7,576	79,277
Depreciation and amortisation	111,305	25,920	56,772	193,997
Allowances for inventories	–	2,243	–	2,243

Geographical segments

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

	2007 HK$'000	2006 HK$'000
Mainland China	**1,988,218**	1,634,673
Europe	**204,789**	90,138
India	**90,979**	110,928
Hong Kong	**4,928**	37,013
Other Asia regions	**230,798**	162,486
Other regions	**75,225**	45,241
	2,594,937	2,080,479

Mainland China represents regions in the PRC other than Hong Kong, Macau and Taiwan.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

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

	Carrying amount of segment assets		**Capital expenditure**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China	**3,801,418**	2,682,331	**764,943**	79,272
Hong Kong	**183,548**	196,646	**355**	5
	3,984,966	2,878,977	**765,298**	79,277

8. OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Bank interest income	**15,317**	2,971
Net gain on disposals of property, plant and equipment	**–**	110
Net exchange gain	**–**	982
Sale of raw materials	**3,116**	465
Subsidy income (note 38)	**4,816**	4,130
Sundry income	**2,504**	1,260
	25,753	9,918

9. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**75,152**	73,527
Interest on loan from a director	**4,809**	11,958
	79,961	85,485

10. 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 2007

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Heng Kwoo Seng HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	–
Other emoluments:								
Salaries and other benefits	2,075	768	869	920	98	98	98	4,926
Retirement benefit scheme contributions	–	74	12	12	–	–	–	98
	2,075	842	881	932	98	98	98	5,024
Total emoluments	2,075	842	881	932	98	98	98	5,024

Year ended 31 December 2006

	Choy Kam Lok HK$'000	Peng Wei HK$'000	Leung Wing Hon HK$'000	Choy Siu Chit HK$'000	Heng Kwoo Seng HK$'000	Huang Bao Guang HK$'000	Song Ming HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	–
Other emoluments:								
Salaries and other benefits	1,896	211	506	845	–	–	–	3,458
Retirement benefit scheme contributions	12	66	12	12	–	–	–	102
	1,908	277	518	857	–	–	–	3,560
Total emoluments	1,908	277	518	857	–	–	–	3,560

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

(b) Employees

The five highest paid individuals of the Group for the year ended 31 December 2007 included four (2006: two) directors of the Company, details of which are set out above. The emoluments of the remaining one (2006: three) individuals are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**1,223**	1,165
Retirement benefits scheme contributions	**12**	24
	1,235	1,189

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$ nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**1**	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as inducement to join upon joining the Group on as compensation for loss of office. None of the directors waived any emoluments during the year ended 31 December 2007 and 31 December 2006.

11. TAXATION

	2007 HK$'000	2006 HK$'000
The charge comprises:		
Current tax		
Hong Kong	**10,519**	10,359
PRC	**44,518**	39,666
Under (over) provision in prior years		
Hong Kong	**4,125**	–
PRC	**–**	(1,433)
	59,162	48,592
Deferred tax (Note 29)	**(11,284)**	(652)
	47,878	47,940

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

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

11. TAXATION *(Continued)*

Pursuant to《外商投資企業和外國企業所得稅法》(the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises) and《外商投資企業和外國企業所得稅法實施細則》(Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises), 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.

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 will be effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate will increase from 15% over 5 years to 25% as a result of the grandfathering provisions. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a rate of 15%. Deferred tax is recognised based on the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

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

	2007	2006
	HK$'000	HK$'000
Profit before taxation	**558,341**	221,778
Tax at PRC Enterprise Income Tax rate of 33%	**184,253**	73,187
Tax effect of share of results of an associate	**–**	900
Tax effect of expenses not deductible for tax purpose	**19,698**	14,757
Tax effect of income not taxable for tax purpose	**(1,820)**	(3,626)
Under (over) provision in prior years	**4,125**	(1,433)
Utilisation of tax losses previously not recognised	**(38,473)**	–
Tax effect of tax losses not recognised	**2,863**	1,156
Tax effect of deferred tax assets not recognised	**13,255**	15,871
Effect of tax concessionary rates granted to the PRC subsidiaries	**(89,904)**	(32,426)
Effect of tax exemptions granted to the PRC subsidiaries	**(39,108)**	(13,231)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7,868)**	(8,598)
Others	**857**	1,383
Taxation for the year	**47,878**	47,940

12. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Allowances for inventories	**20,301**	2,243
Allowance for doubtful debts	**333**	1,318
Auditor's remuneration	**2,755**	1,880
Listing expenses (included in other expenses)	**26,683**	15,399
Depreciation and amortisation		
Depreciation of property, plant and equipment	**181,779**	188,315
Amortisation		
– intangible assets (included in administrative expenses)	**2,749**	2,981
– prepaid lease payments	**2,088**	2,701
	186,616	193,997
Less: amount included in research and development expenditure	**(1,059)**	(1,187)
	185,557	192,810
Net exchange loss	**6,154**	–
Net loss on disposal of property, plant and equipment	**272**	–
Operating lease payments in respect of rented premises	**1,116**	1,512
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**165,171**	138,956
Retirement benefit costs	**9,669**	8,275
	174,840	147,231
Less: amount included in research and development expenditure	**(2,045)**	(2,176)
	172,795	145,055
Research and development expenditures (included in other expenses)	**11,494**	19,132

13. DISTRIBUTIONS

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

A final dividend of HK17 cents (2006: nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming general meeting.

14. EARNINGS PER SHARE

The calculation of the earnings per share for the year ended 31 December 2007 is based on the profit attributable to the equity holders of the Company and the weighted average number of 1,064,383,562 (2006: 900,000,000) shares deemed to be in issue, assuming that both the Group Reorganisation and the capitalisation issue has taken place on 1 January 2006.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2006	581,254	1,427,174	48,231	29,382	41,497	2,127,538
Exchange adjustments	15,856	45,286	1,523	957	1,235	64,857
Additions	17,690	43,589	3,231	698	14,069	79,277
Disposals	–	(608)	(453)	(1,423)	–	(2,484)
Reclassification	16,138	22,311	12,946	–	(51,395)	–
Government grants received	–	(2,663)	–	–	–	(2,663)
At 31 December 2006	630,938	1,535,089	65,478	29,614	5,406	2,266,525
Exchange adjustments	41,602	118,248	4,697	2,365	14,111	181,023
Additions	14,968	286,399	2,749	9,216	447,866	761,198
Disposals	–	(11,488)	(196)	(2,218)	–	(13,902)
Reclassification	74,287	22,502	–	–	(96,789)	–
At 31 December 2007	761,795	1,950,750	72,728	38,977	370,594	3,194,844
DEPRECIATION						
At 1 January 2006	64,986	309,939	30,547	22,925	–	428,397
Exchange adjustments	1,735	8,724	922	737	–	12,118
Charge for the year	20,695	156,643	8,133	2,844	–	188,315
Eliminated on disposals	–	(582)	(411)	(1,389)	–	(2,382)
At 31 December 2006	87,416	474,724	39,191	25,117	–	626,448
Exchange adjustments	6,116	35,753	2,846	1,761	–	46,476
Charge for the year	23,146	150,981	5,845	1,807	–	181,779
Eliminated on disposals	–	(7,698)	(173)	(1,780)	–	(9,651)
At 31 December 2007	116,678	653,760	47,709	26,905	–	845,052
CARRYING AMOUNTS						
At 31 December 2007	**645,117**	**1,296,990**	**25,019**	**12,072**	**370,594**	**2,349,792**
At 31 December 2006	543,522	1,060,365	26,287	4,497	5,406	1,640,077

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

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

	2007 **HK$'000**	2006 HK$'000
Leasehold land in Hong Kong:		
Medium–term lease	**104,404**	106,952
Leasehold land outside Hong Kong:		
Medium–term lease	**540,713**	436,570
	645,117	543,522

At 31 December 2007, the Group is in the process of obtaining the real estate ownership certificate for building with an aggregate carrying amount of HK$35,724,000 (2006: nil).

16. PREPAID LEASE PAYMENTS

	2007 **HK$'000**	2006 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium–term lease	**23,169**	23,747
Land use rights in the PRC:		
Medium–term lease	**78,665**	58,533
	101,834	82,280
Analysed for reporting purposes as:		
Non–current asset	**99,495**	80,392
Current asset	**2,339**	1,888
	101,834	82,280

At 31 December 2007, the Group is in the process of obtaining the land use right certificate for prepaid lease payments with an aggregate amount of HK$14,302,000 (2006: nil).

17. GOODWILL

	HK$'000
COST	
At 1 January 2006	2,901
Exchange adjustments	100
At 31 December 2006	3,001
Exchange adjustments	225
At 31 December 2007	3,226

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash generating units (CGUs), including one subsidiary operates in bulk medicine segment and one subsidiary operates in finished products segment. The carrying amounts of goodwill as at balance sheet dates allocated to these units are as follows:

	2007 HK$'000	2006 HK$'000
Bulk medicine	**823**	766
Finished products	**2,403**	2,235
	3,226	3,001

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

The recoverable amounts of the relevant CGUs have been determined on the basis of value in use calculations. The value in use calculations use cash flow projections which are based on approved financial budgets covering a 5–year period and discount rate of 9.83% (2006: 8.8%). Cash flows beyond the 5–year period have been extrapolated using growth rate of 0%. The key assumptions are summarised below:

a. Expected growth rate is based on the relevant industry condition.

b. Budgeted gross margin is based on the past performance and the Group's expectation for the market development.

18. INTANGIBLE ASSETS

	HK$'000
COST	
A 1 January 2006	12,593
Exchange realignment	437
At 31 December 2006	13,030
Exchange realignment	1,139
Addition	4,100
At 31 December 2007	18,269
AMORTISATION	
At 1 January 2006	6,171
Exchange realignment	215
Charge for the year	2,981
At 31 December 2006	9,367
Exchange realignment	810
Charge for the year	2,749
At 31 December 2007	12,926
CARRYING AMOUNTS	
At 31 December 2007	5,343
At 31 December 2006	3,663

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.

19. AVAILABLE–FOR–SALE INVESTMENT

	2007 **HK$'000**	2006 HK$'000
Unlisted investment at cost	**23,417**	23,417
Less: Impairment loss recognised	**(23,417)**	(23,417)
	–	–

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

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

20. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**108,161**	115,875
Work in progress	**131,803**	74,577
Finished goods	**310,201**	153,663
	550,165	344,115

21. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group normally allows an average credit period of 30 days – 120 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with Group.

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

	2007 HK$'000	2006 HK$'000
Trade receivables		
0 to 30 days	**257,875**	211,875
31 to 60 days	**109,685**	98,002
61 to 90 days	**40,532**	25,394
91 to 120 days	**17,234**	2,022
121 to 180 days	**7,890**	21,083
Over 180 days	**3,598**	1,552
	436,814	359,928
Bills receivables		
0 to 30 days	**59,770**	82,688
31 to 60 days	**64,210**	92,691
61 to 90 days	**47,362**	79,761
91 to 120 days	**67,208**	65,621
121 to 180 days	**135,026**	70,204
Over 180 days	**3,272**	504
	376,848	391,469
Deposits and prepayments	**91,799**	46,990
	905,461	798,387

92% (2006: 95%) of the trade and bills received that are neither past due nor impaired and have either been subsequently settled or maintained active trade business relationship with the Group.

Included in the Group's trade and bills receivable are debtors with a carrying amount of HK$61,984,000 (2006: HK$36,064,000) which are past due over at the reporting date. 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.

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

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

	2007 HK$'000	2006 HK$'000
61–90 days	**34,661**	12,398
91–120 days	**17,264**	2,022
121–180 days	**7,311**	20,092
Over 180 days	**2,748**	1,552
	61,984	36,064

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

Included in the allowance for doubtful debts are individually impaired trade and bills receivables with balance of HK$33,446,000 (2006: HK$30,589,000) which has either been placed under liquidation or have been long outstanding without settlement nor business relationship with Group. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	**30,589**	29,271
Exchange adjustments	**2,673**	–
Amount written off as uncollectible	**(149)**	–
Impairment losses recognised on receivables	**1,836**	1,318
Impairment losses reversed	**(1,503)**	–
Balance at end of the year	**33,446**	30,589

As at 31 December 2007, the Group had HK$360,829,000 (2006: HK$181,067,000) of bills receivables discounted to several financial institutions with recourse by providing a credit guarantee over the expected losses of those receivables. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on such discount as a secured borrowing (see note 26).

Included in the Group's trade and bills receivables are trade and bills receivables with a carrying amount of HK$77,609,000 (2006: HK$21,755,000) which are denominated in United States dollars, being foreign currency of respective group entities.

22. LOAN RECEIVABLE

The amount represents an advance to a supplier and has been repaid on 15 February 2007. The balance is unsecured and bears interest at 5.41% per annum. The advance was made for the purpose of assisting the supplier for its technical improvements.

23. AMOUNT DUE FROM A DIRECTOR

Particulars of amount due from a director disclosed pursuant to section 161B of Hong Kong Companies Ordinance was as follows:

Name of borrower	2005 HK$'000	2006 HK$'000	2007 HK$'000
Mr. Choy Kam Lok	319,946	515,673	–
Maximum balances outstanding		515,673	**515,673**

Mr. Choy Kam Lok is a director and a beneficial owner of the Company who governs the financial and operating policies of the Group. The amount due from a director was unsecured, interest free and repayable on demand. The directors considered the amount due from a director was conducted on normal commercial terms, and their terms are fair and reasonable. The director repaid the amount due before listing of the Company's shares on the Stock Exchange.

24. PLEDGED BANK DEPOSITS, BANK BALANCES AND BANK OVERDRAFTS

Pledged bank deposits

	2007 HK$'000	2006 HK$'000
Pledged bank deposits denominated in:		
RMB	**230,892**	205,289
Hong Kong Dollars	**123,306**	5,385
United States Dollars	**13**	5,891
	354,211	216,565

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

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

The range of average effective interest rates per annum of the pledged deposits at 31 December 2007 is 0.72% to 4% (2006: 1.44% to 3.25%).

Included in the Group's pledged bank deposits are pledged bank deposits with a carrying amount of HK$13,000 (2006: HK$5,891,000) which are denominated in United States dollars, being foreign currencies of respective group entities.

24. PLEDGED BANK DEPOSITS, BANK BALANCES AND BANK OVERDRAFTS

(Continued)

Bank balances and cash

	2007 HK$'000	2006 HK$'000
Bank balances and cash denominated in:		
RMB	**87,562**	88,445
Hong Kong Dollars	**310,587**	8,445
United States Dollars	**3,113**	2,336
	401,262	99,226

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

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

The range of average effective interest rate per annum of the bank balances at 31 December 2007 is 0.72% to 5.22% (2006: 0.72% to 2.58%).

Included in the Group's bank balances and cash are bank balances with a carrying amount of HK$3,113,000 (2006: HK$2,336,000) which are denominated in United States dollars, being foreign currencies of respective group entities.

Bank Overdraft

	2007 HK$'000	2006 HK$'000
Bank overdraft, secured	**51**	5,956

The range of average effective interest rates per annum of the bank overdraft at 31 December 2007 is 6.75% to 7.75% (2006: 9.25% to 9.5%).

25. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	2007	2006
	HK$'000	HK$'000
Trade payables		
0 to 90 days	**293,970**	318,133
91 to 180 days	**54,348**	89,335
Over 180 days	**20,334**	18,666
	368,652	426,134
Bills payables		
0 to 90 days	**116,782**	183,839
91 to 180 days	**123,886**	163,508
	240,668	347,347
Other payables and accruals	**281,592**	120,828
	890,912	894,309

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

26. BORROWINGS

	2007	2006
	HK$'000	HK$'000
Bank loans	**1,015,615**	1,112,152
Discounted bills with recourse	**360,829**	181,067
Other borrowings	**–**	6,370
	1,376,444	1,299,589
Analysed as:		
Secured	**610,037**	752,456
Unsecured	**766,407**	547,133
	1,376,444	1,299,589

26. BORROWINGS *(Continued)*

The borrowings are repayable as follows:

	2007 HK$'000	2006 HK$'000
On demand or within one year	**833,334**	1,047,460
More than one year, but not exceeding two years	**370,303**	240,626
More than two years, but not exceeding five years	**172,807**	11,503
	1,376,444	1,299,589
Less: Amount due within one year shown under current liabilities	**(833,334)**	(1,047,460)
Amount due after one year	**543,110**	252,129

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

Denominated in	**Interest rate**	**2007 HK$'000**	2006 HK$'000
RMB	People's Bank of China lending rate – floating rate	**1,094,304**	447,099
RMB	People's Bank of China leading rate – fixed rate	**90,483**	414,291
Hong Kong dollars	Hong Kong Interbank Offered Rate plus 1% to 2.5%	**191,657**	438,199
		1,376,444	1,299,589

Certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group.

The range of average effective interest rates per annum of the floating rate borrowings at 31 December 2007 is 5.52% to 7.47% (2006: 5.02% to 7.06%). The range of average effective interest rates per annum of the fixed rate borrowings at 31 December 2007 is 6.12% to 7.29% (2006: 5.58% to 6.30%).

27. TRUST RECEIPT LOANS

The trust receipt loans carry interests at the standard bills rate quoted by banks or at a margin over Hong Kong prime rate. The trust receipt loans are secured by the Group's leasehold land and buildings and bank deposits.

The range of average effective interest rates per annum of the trust receipt loans at 31 December 2007 is 5.8% to 7.3% (2006: 6.16% to 6.81%).

28. LOAN FROM A DIRECTOR

The amount represented a loan from a director, Mr. Choy Kam Lok, which was unsecured, carried interest at Hong Kong prime rate minus 0.625% per annum. The director represented that the loan were advanced on normal commercial terms, and the terms were fair and reasonable. The loan from a director was settled in full by the Group before listing of the Company's shares on the Stock Exchange.

29. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	**Unrealised profit on inventories** HK$'000	**Total** HK$'000
At 1 January 2006	(16,522)	–	(16,522)
Credit to income statement for the year	652	–	652
At 31 December 2006	(15,870)	–	(15,870)
Credit to income statement for the year	1,635	9,649	11,284
At 31 December 2007	(14,235)	9,649	(4,586)

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

	2007 **HK$'000**	2006 HK$'000
Deferred tax assets	**9,649**	–
Deferred tax liabilities	**(14,235)**	(15,870)
	(4,586)	(15,870)

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

	2007 **HK$'000**	2006 HK$'000
Accelerated depreciation charges	**102,961**	82,169
Allowances for doubtful debts	**33,446**	30,589
Allowances for inventories	**28,866**	8,565
Unrealised profit on inventories	**–**	25,628
	165,273	146,951

29. DEFERRED TAXATION *(Continued)*

The Group has unrecognised tax losses of HK$16,527,000 (2006: HK$124,437,000) at the balance sheet date. No deferred tax asset has been recognised for such tax losses due to unpredictability of future profits streams. The unrecognised tax losses will expire in the following years ending 31 December:

	2007	2006
	HK$'000	HK$'000
Tax losses will expire in:		
2009	**–**	48,693
2010	**–**	65,362
2011	**–**	2,531
2012	**–**	–
2013	**8,676**	–
	8,676	116,586
Tax losses without expiry	**7,851**	7,851
	16,527	124,437

30. SHARE CAPITAL

	Notes	**Number of shares**	**Amount**
			HK$'000
Ordinary shares of HK$0.01 each:			
Authorised:			
On 6 March 2006 (date of incorporation)	(a)	38,000,000	380
Increase on 25 May 2007	(b)	3,762,000,000	37,620
At 31 December 2007		**3,800,000,000**	**38,000**
Issued and fully paid:			
On 6 March 2006 (date of incorporation)	(a)	1	–
Issue of shares upon the Group Reorganisation	(c)	999	–
Capitalisation issue	(d)	899,999,000	9,000
Issue of new shares	(e)	300,000,000	3,000
At 31 December 2007		**1,200,000,000**	**12,000**

30. SHARE CAPITAL *(Continued)*

The following changes in the share capital of the Company took place during the period from 6 March 2006 (date of incorporation) to 31 December 2007:

(a) The Company was incorporated on 6 March 2006 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the same date, 1 ordinary share of HK$0.01 was allotted and issued, credited as fully paid to Mr. Choy Kam Lok, a director of the Company.

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

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

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

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

The share capital at 31 December 2006 as shown in the consolidated balance sheet represented the issued and fully paid share capital of The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group.

31. SHARE OPTION SCHEME

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

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

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

32. ACQUISITION OF A SUBSIDIARY

On 13 January 2006, the Group acquired 100% of equity interest of 珠海市金德福企業策劃有限公司 (Zhuhai Jindefu Enterprise Planning Company Limited) from Mr. Ning Ya Lu (寧亞祿) and Mr. Su Quan Xing (蘇銓興) for a consideration of HK$14,353,000. The directors are of the belief that Mr. Ning Ya Lu (寧亞祿) is a brother of Mr. Choy Kam Lok's spouse and Mr. Su Quan Xing (蘇銓興) is a staff of the Group. The consideration was determined and agreed by both parties mutually. The acquisition has been accounted for as an acquisition of additional interest in a subsidiary that do not result in a change of control.

	2007 HK$'000	2006 HK$'000
NET ASSETS ACQUIRED		
Partial interest in a subsidiary	–	26,256
Trade and bills receivables, deposits and prepayments	–	15,224
Bank balances and cash	–	553
Trade and bills payables and accrued charges	–	(5,131)
	–	36,902
Excess of the carrying amounts of net assets of subsidiary acquired over the consideration paid, credited to special reserve	–	(22,549)
Total consideration	–	14,353

	2007 HK$'000	2006 HK$'000
Net cash outflow arising on acquisition:		
Cash consideration	–	(14,353)
Bank balances and cash acquired	–	553
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	–	(13,800)

The directors consider the carrying amount of net assets of the subsidiaries acquired approximates their fair values.

33. MAJOR NON–CASH TRANSACTIONS

The interest on loan from a director for the year ended 31 December 2007 of HK$4,809,000 (2006: HK$11,958,000) was settled by crediting an equivalent sum to loan from a director.

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

34. OPERATING LEASES

The Group as lessee

	2007 HK$'000	2006 HK$'000
Aggregate outstanding commitments for future minimum lease payments under non–cancellable operating leases which fall due as follows:		
Within one year	**621**	618
In the second to fifth years inclusive	**314**	125
	935	743

Operating lease payments represent rentals payable by the Group for certain 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.

35. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**459,970**	79,455

36. PLEDGE OF ASSETS

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

	2007 HK$'000	2006 HK$'000
Property, plant and equipment	**557,284**	484,384
Prepaid lease payments	**72,025**	67,973
Trade and bills receivables	**150,754**	162,944
Pledged bank deposits	**354,211**	216,565
	1,134,274	931,866

In addition, bank loans of HK$68,000,000 outstanding as at 31 December 2007 are secured by the debentures over assets of certain subsidiaries of the Group.

37. 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 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. 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$178,000 (2006: HK$160,000) are charged to the consolidated income statement.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of HK$9,491,000 (2006: HK$8,115,000) are charged to the consolidated income statement.

38. GOVERNMENT GRANTS

During the year ended 31 December 2006, the Group received government grants of HK$2,663,000 to subsidise the acquisition of property, plant and machinery. The government grants to subsidise the acquisition of property, plant and machinery have been deducted from the carrying amount of the relevant assets and treated as deferred income respectively. The amount is transferred to income in the form of reduced depreciation or amortisation charges over the useful lives of the relevant assets. This policy has resulted in a decrease in the depreciation or amortisation charge in the current year of HK$270,000 (2006: HK$266,000).

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$9,421,000 (2006: HK$8,763,000) 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 consolidated income statement of HK$4,816,000 (2006: HK$4,130,000).

39. RELATED PARTY TRANSACTIONS

In addition to the amount due from a director and the loan from a director set out in notes 9, 23 and 28 respectively, personal guarantees, bank deposits, securities and leasehold land and buildings were provided by Mr. Choy Kam Lok and his spouse to secure the banking facilities granted to the Group. These guarantees and securities were released before the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and were replaced by the guarantees provided by the Company.

40. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2007 and 2006 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
			2007	2006	
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holdings Hong Kong
Bowden Trading Limited	Samoa	US$1,000	**100%**	100%	Trademark holdings Hong Kong
The United Laboratories, Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holdings and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holdings Hong Kong
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦制藥(成都)有限公司 (note b)	PRC	RMB250,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products PRC

40. 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) 2007	2006	Principal activities and place of operation
珠海康知樂醫藥有限公司 (formerly known as 中山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	RMB254,600,000	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海樂邦制藥有限公司 (note b)	PRC	RMB12,825,182	**100%**	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦藥業有限公司 (note c)	PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 (note b)	PRC	RMB16,450,503	**100%**	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 (note b)	PRC	RMB8,014,500	**100%**	100%	Investment holdings PRC
珠海市金德福企業策劃有限公司(formerly known as珠海市金德福有限公司) (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	RMB160,000,000	**100%**	–	Manufacturing and sale of pharmaceutical intermediate products 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

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

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

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