



## The United Laboratories International Holdings Limited

### 聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

## 2007 ANNUAL RESULTS ANNOUNCEMENT

### FINANCIAL HIGHLIGHTS

	2007 HK\$'000	2006 HK\$'000	Increase %
Turnover	2,594,937	2,080,479	24.7%
EBITDA	824,918	501,260	64.6%
Profit before taxation	558,341	221,778	151.8%
Profit attributable to equity holders	510,463	173,838	193.6%
Basic earnings per share (HK cents)	HK48.0 cents	HK19.3 cents	148.7%

### 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 was listed on the Main Board of The Stock Exchange of Hong Kong Limited raising gross proceeds of approximately HK\$949 million (including over-allotment). More importantly, the listing enables 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.

Under the positive impacts of favourable measures of the PRC in 2006 such as the reform of retail markets of pharmaceutical products by the PRC government in 2006, improvement of operating environment, the increased funding from the PRC, the extension of coverage of the medical scheme and the growth in capacity of pharmaceutical markets, the economies of scales of pharmaceutical industry rapidly rebound in 2007. Furthermore, at the meeting of the Eleventh National People's Congress of the People Republic of China, it was indicated that expenditure on medical and health care amounted to an aggregate of RMB629.4 billion in the last 5 years, which was 1.27 times higher than the previous 5 years. Public health care, medical services and medical schemes system infrastructures were continuously upgraded. 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 involve in fermentation were forced to reduce or suspend their

production due to their inability to meet the national sewage disposal standard leading to the decrease in the supply of 6-APA, 7-ACA & amoxicillin.

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 194% as compared to last year. Earnings per share was HK48 cents, surged approximately 149% as compared with last year. The Board recommended the payment of a final dividend of HK 17 cents per share for the year ended 31 December 2007.

During the year, the Group has further leveraged the strength of vertically integration 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 plants, 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 engage in the bulk medicine upstream product 6-APA, in order to cater for the strong growth of the future PRC market demands, better and more directly control the 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 economy of scale.
- Finished products: Benefited from the favourable measures launched by the PRC government in the first half of the year, with its 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 COS certificate from the EDQM of the European Union, United Laboratories has become the only Chinese manufacturer who obtained the amoxicillin bulk medicine COS certificate and the 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 Union 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 Union 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.

## 2007 ANNUAL RESULTS

The Board of the Company is pleased to announce the consolidated results of the Group for the year ended 31 December 2007 and the comparative figures for the corresponding period in 2006 as follows:

### Consolidated Income Statement

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Turnover	3	<b>2,594,937</b>	2,080,479
Cost of sales		<b>(1,389,152)</b>	(1,344,180)
Gross profit		<b>1,205,785</b>	736,299
Other income	4	<b>25,753</b>	9,918
Selling and distribution costs		<b>(381,535)</b>	(284,093)
Administrative expenses		<b>(173,267)</b>	(122,956)
Other expenses		<b>(38,434)</b>	(37,791)
Finance costs	5	<b>(79,961)</b>	(85,485)
Share of results of an associate		-	(2,726)
Gain on disposal of an associate		-	8,612
Profit before taxation		<b>558,341</b>	221,778
Taxation	6	<b>(47,878)</b>	(47,940)
Profit for the year attributable to equity holders of the Company	7	<b>510,463</b>	173,838
Distributions	8	<b>277,083</b>	-
Earning per share – basic	9	<b>HK 48.0 cents</b>	HK 19.3 cents

## Consolidated Balance Sheet

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	10	<b>2,349,792</b>	1,640,077
Prepaid lease payments		<b>99,495</b>	80,392
Goodwill		<b>3,226</b>	3,001
Intangible assets		<b>5,343</b>	3,663
Deposits for acquisition of property, plant and machinery		<b>69,145</b>	7,454
Available-for-sale investment		-	-
Deferred tax asset		<b>9,649</b>	-
		<b>2,536,650</b>	1,734,587
Current assets			
Inventories		<b>550,165</b>	344,115
Trade and bills receivables, deposits and prepayments	11	<b>905,461</b>	798,387
Loan receivable		-	1,779
Prepaid lease payments		<b>2,339</b>	1,888
Amount due from a director		-	515,673
Pledged bank deposits		<b>354,211</b>	216,565
Bank balances and cash		<b>401,262</b>	99,226
		<b>2,213,438</b>	1,977,633
Current liabilities			
Trade and bills payables and accrued charges	12	<b>890,912</b>	894,309
Tax payables		<b>12,564</b>	24,100
Borrowings		<b>833,334</b>	1,047,460
Trust receipt loans		<b>3,350</b>	701
Bank overdraft, secured		<b>51</b>	5,956
		<b>1,740,211</b>	1,972,526
Net current assets		<b>473,227</b>	5,107
Total assets less current liabilities		<b>3,009,877</b>	1,739,694
Non-current liabilities			
Borrowings		<b>543,110</b>	252,129
Loan from a director		-	160,100
Deferred tax liabilities		<b>14,235</b>	15,870
		<b>557,345</b>	428,099
		<b>2,452,532</b>	1,311,595
Capital and reserves			
Share Capital		<b>12,000</b>	390
Reserves		<b>2,440,532</b>	1,311,205
Equity attributable to equity holders		<b>2,452,532</b>	1,311,595

Notes:

## 1. General

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

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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 ("Listing Rules") and the Hong Kong Companies Ordinance.

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 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 Economics
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

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 or revised standards or interpretations that have been issued but are not yet effective.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2009

### 3. Turnover And Segment Information

#### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes, and sub-contracting service income for sub-contracting services rendered by the Group to outside customers.

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Sales of goods	<b>2,594,937</b>	2,066,276
Sub-contracting service income	-	14,203
	<b><u>2,594,937</u></b>	<u>2,080,479</u>

#### Business segments

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

An analysis of the Group's turnover and segmental results from operating divisions is as follows:-

*For the year ended 31 December 2007*

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

For the year ended 31 December 2006

	Intermediate products <i>HK\$'000</i>	Bulk medicine <i>HK\$'000</i>	Finished products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Combined <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	197,373	1,077,294	805,812	-	2,080,479
Inter-segment sales	609,780	97,180	-	(706,960)	-
	<u>807,153</u>	<u>1,174,474</u>	<u>805,812</u>	<u>(706,960)</u>	<u>2,080,479</u>
<b>RESULT</b>					
Segment result	<u>25,430</u>	<u>63,049</u>	<u>219,824</u>		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				<u>8,612</u>
Profit before taxation					221,778
Taxation					<u>(47,940)</u>
Profit for year					<u>173,838</u>

#### 4. Other Income

	<b>2007</b> <b><i>HK\$'000</i></b>	2006 <i>HK\$'000</i>
Bank interest income	<b>15,317</b>	2,971
Net gain on disposal of property, plant and equipment	-	110
Net exchange gain	-	982
Sales of raw materials	<b>3,116</b>	465
Subsidy income	<b>4,816</b>	4,130
Sundry income	<b>2,504</b>	1,260
	<u><b>25,753</b></u>	<u>9,918</u>



5. **finance costs**

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

6. **Taxation**

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The charge comprises:		
Current tax		
– Hong Kong	<b>10,519</b>	10,359
– PRC	<b>44,518</b>	39,666
Under(Over) provision in prior years		
– Hong Kong	<b>4,125</b>	-
– PRC	-	(1,433)
	<u><b>59,162</b></u>	<u>48,592</u>
Deferred tax	<u><b>(11,284)</b></u>	<u>(652)</u>
	<u><b>47,878</b></u>	<u>47,940</u>

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.

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 at the 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.

## 7. Profit for the Year

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit for the year had been arrived at after charging (crediting):		
Auditors' remuneration	2,755	1,880
Allowances for inventories	20,301	2,243
Allowance for doubtful debts	333	1,318
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 (include 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)
	<u>185,557</u>	<u>192,810</u>
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)
	<u>172,795</u>	<u>145,055</u>
Research and development expenditures (included in other expenses)	<u>11,494</u>	<u>19,132</u>

## 8. 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 HK\$0.17 (2006: nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming general meeting.

## 9. Basic Earnings Per Share

The calculation of the basic 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.

## 10. Movements In Property, Plant And Equipment

During the year, the Group spent approximately HK\$749,233,000 on the construction of factory premises and manufacturing plant, in order to upgrade its manufacturing capabilities.

## 11. Trade And Bills Receivables, Deposits And Prepayments

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

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

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

## 12. Trade and Bills Payables and Accrued Charges

The Group normally receives credit terms of 0 days 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 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
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
	<u>368,652</u>	<u>426,134</u>
Bills payables		
0 to 90 days	116,782	183,839
91 to 180 days	123,886	163,508
	<u>240,668</u>	<u>347,347</u>
Other payables and accruals	<u>281,592</u>	<u>120,828</u>
	<u>890,912</u>	<u>894,309</u>

## 13. Capital Commitments

At 31 December 2007, the Group had commitments for capital expenditure of HK\$459,970,000 (2006: HK\$79,455,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

## 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 high 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 many resources on the 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 is the approach adopted to update 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 price of bulk medicine products. 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 continuing increase 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 vertically integrated production operation which in turn maximized the economies of scales and enhanced the Group's profitability.

## *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 tax 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 driving the growth in the size of pharmaceutical markets and led to the rapid growth of the economic benefits 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:-

### *1. The price increase in bulk medicine and intermediate products*

As a result of the advocate of green production and the increased 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 led to the decrease in the supply of 6-APA, 7-ACA and amoxicillin. The Group has increased its investment in environmental protection facilities 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.

### *2. Export business remains strong, strengthen the development of high- end overseas market*

The turnover of overseas 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 certificate 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 certificate and the GMP certificate issued by the European Union. This has strengthened the Company's competitiveness in the overseas market.

3. *For the increase 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 extent 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 three finished products namely Amoxicillin capsule (250mg & 500mg), Ampicillin capsule (250mg & 500mg) and Amoxicillin granule and the other five individual pricing products 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.

4. *Increase in gross margin*

The Group's gross margin has increased continuously in 2007. This was attributable to the rising prices of bulk medicine and intermediate products and the lowering 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 all of the above factors, the Group has achieved an outstanding performance in 2007 and envisages a bright prospects in the future.

Liquidity and Financial Resources

As at 31 December 2007, the Group had bank deposits, cash and bank balances amounted to 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 are fixed rate loans while the remaining balance of approximately HK\$1,290 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 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
	<u>1,134,274</u>	<u>931,866</u>

Certain banking facilities are secured by the charge over all 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 liabilities to total assets) of 48.4% as at 31 December 2007, as compared with 64.7% as at 31 December 2006.

### Use of Proceeds from Global Offering

On 4 June 2007, the Company offered for subscription under an international placing and public offer for 300,000,000 ordinary shares of HK\$0.01 each at an offer price of HK\$2.75 per share (the "Share Offer"). Net proceeds from the Share Offer, after deducting the professional fees and all related expenses, amounted to approximately HK\$780,500,000. Part of the net proceeds have been used by the Company as follows:

- approximately HK\$90,600,000 for expanding and upgrading the Group's production facilities;
- approximately HK\$27,500,000 for developing markets 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 partially re-paying two of the Group's outstanding loan facilities, one of which was due in September 2007 and carried an interest rate of 5.76% per annum and the other was due in December 2007 and carried 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 institution, and will be utilized in accordance with the plans disclosed in the Prospectus dated 4 June 2007.

### Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, 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, respectively, the Group had no material contingent liabilities.

### Outlook for 2008

Despite the US sub-prime lending crisis which caused the slowdown 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 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. The PRC markets are 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 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 and bulk medicine products. The Group's production plant in Inner Mongolia will be in full production in 2008. The production volume of the Group's three major core products such as Semi-synthetic penicillin, Cephalosporins and  $\beta$ -lactamase inhibitors will be greatly enhanced to mitigate the impact of the downward pricing pressure of these products in the future and to ensure the continuous revenue growth of these products.

As a result of securing the bulk medicine amoxicillin COS certificate 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 reimbursement 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 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 type 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 pending the review and approval of the State Food and Drug Administration of the PRC. There are 19 different types 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 similiar medicine pending the professional review and approval of the State Drug Administration Centre of the PRC. The research and development of new products will enhance the business development in the PRC towns and cities markets.

7 types of new products are expected to be launched in the markets in 2008.

#### *The 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 unit production cost will continue to decrease. This will strengthen the competitiveness of the Group's products to counteract the risks of downward pricing pressure and to enable the Group's to sustain its performance growth.

#### *Employees and Remuneration*

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.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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



## **DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board proposed a final dividend of HK17 cents per share (2006: Nil) to be payable to shareholders whose names appear in the register of members of the Company on 30 May 2008. The register of members will be closed from 28 May 2008 to 30 May 2008 (both dates inclusive), during which period no transfer of shares will be effected.

In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 27 May 2008.

Dividend is expected to be dispatched on 11 June 2008.

## **CORPORATE GOVERNANCE**

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

The Company has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices as stated in Appendix 14 to the Listing Rules for the year ended 31 December 2007.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **AUDIT COMMITTEE REVIEW**

The Audit Committee comprises of three independent non-executive directors, namely Messrs Heng Kwoo Seng, Huang Bao Guang and Song Ming. The Audit Committee and the Company's external auditors have reviewed and discussed matters relating to internal controls and financial statement, including a review of the audited financial statement for the year ended 31 December 2007.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises (1) Mr. Choy Kam Lok, Ms. Peng Wei and Mr. Leung Wing Hon as executive directors; (2) Ms. Choy Siu Chit as a non-executive director; and (3) Messrs Heng Kwoo Seng, Huang Bao Guang and Song Ming as independent non-executive directors.

On behalf of the Board  
**CHOY KAM LOK**  
*Chairman*

Hong Kong, 9 April 2008